



Revenue Budget Monitoring – Outturn, 2015/16

Decision to be taken by: City Mayor

Decision to be taken on: 23rd June 2016

Overview Select Committee date: 22nd June 2016

Lead director: Alison Greenhill

Useful information

- Ward(s) affected: All
- Report author: Alistair Cullen
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1. Summary

The purpose of this report is to set out the Council's financial performance against its revenue budget in the financial year 2015/16. Given the scale of Government funding cuts, departments have inevitably been under pressure to provide services with less funding. The outturn position is largely consistent with forecasts presented during the year and the main issues have been highlighted in previous monitoring reports.

Budget pressures in Adult Social Care remain significant. Costs have been stabilised and improvements in reporting are leading to better information for decision making. The 2015/16 position has been managed using one-off funding. The 2016/17 budget has addressed forecast demand pressures the department faces whilst still requiring savings that can be realised through efficiencies in the way that services are run

Budget pressures in Children's Social Care have arisen from growth in the number of children's placements, and difficulties in recruiting social workers. These pressures have been managed in 2015/16 through the use of departmental reserves. As in Adult Social Care, the 2016/17 budget has addressed the forecast pressures relating to demand.

The Health and Well Being division has managed the Government's in-year cut to the Public Health grant and delivered the substance misuse spending review, saving £1m. Despite this, further funding cuts in 2016/17 and future years necessitate continued savings.

The Council's Corporate Resources functions have delivered significant one-off savings, largely through early achievement of spending review savings already reported. This has allowed the department to request in the recommendations of this report that sums be set aside to cover a number of future pressures and funding of one-off costs (set out in the report). The budget for these services has reduced significantly in 2016/17 in line with the spending review decisions.

The Housing Benefit budget has overspent as a result of an increase in the level of overpayments uncovered through data matching work carried out by the Government in preparation for the transfer to Universal Credit.

The medium-term financial outlook is extremely difficult as funding cuts start to bite. Managing spending pressures will be crucial to living within our means but making spending cuts, then living within reduced budgets, will become increasingly difficult.

2015/16 marks the turning point in the Council's managed reserves strategy – from 2016/17 the reserves that have been built up in recent years will start to reduce as they are used to support the revenue budget whilst savings are delivered. The current spending reviews will report during 2016/17 and there will be a strong emphasis on ensuring we have appropriate systems of control; together with the ability to take rapid action to bring spending within budget when new problems emerge.

2. Recommendations

2.1 The Executive is recommended to:

- Note the outturn position detailed in the report
- Approve the proposed uses for contributions to departments reserves within the Corporate Resources department, as set out in Appendix B, paras 1.3, 2.2, 3.5, 4.2 & 5.1
- Approve the transfer of the underspends within City Development & Neighbourhoods to departmental reserves, including £0.3m to the Housing reserve as outlined in Appendix B, Para 10.3 and £37k to CDN reserves to assist with future costs of transformation
- Approve the proposal to transfer the £0.3m underspend in Health & Well-being to the department's reserve to help manage costs related to delivering future savings, as detailed in Appendix B, Para 13.8
- Approve the reduction of the 2016/17 budget for the City Development & Neighbourhoods division by £300k, representing savings made within the division's operating budget. Delegate authority to the Director of Finance to determine which budget ceilings to amend to effect the change
- Approve the proposal to allocate £3.6m of the underspend on corporate budgets to fund the Economic Action Plan, as outlined in Appendix B, Para 17.5

2.2 The OSC is recommended to:

- Consider the overall position presented within this report and make any observations it sees fit.

3. Supporting information including options considered:

The General Fund budget set for the financial year 2015/16 was £274.8m.

Appendix A details the performance of General Fund services against the current budget.

Appendix B provides more detailed commentary on the forecast position for each area of the Council's operations.

4. Financial, legal and other implications

4.1 Financial & Legal implications

This report is solely concerned with financial issues.
Alison Greenhill, Director of Finance, Ext 37 4001

4.2 Climate Change and Carbon Reduction implications

This report is solely concerned with financial issues.

4.3 Equality Impact Assessment

No Equality Impact Assessment (EIA) has been carried out as this is not applicable to a budget monitoring report.

4.4 Other Implications

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-
Elderly/People on low income	No	-
Corporate Parenting	No	-
Health Inequalities Impact	No	-

No other implications are noted as this is a budget monitoring report, and therefore no policy changes are proposed.

5. Background information and other papers.

- Report to Council on the 25th February 2015 on the General Fund revenue budget 2015/16.
- Period 6 Monitoring report and minutes of OSC Finance Task Group presented to OSC on 3rd December 2015.
- Period 9 Monitoring report and minutes of OSC Finance Task Group presented to OSC on 24th March 2016.

6. Summary of appendices:

Appendix A – P9 Budget Monitoring Summary;

Appendix B – Divisional Narrative – Explanation of Variances;

7. Is this a private report?

No

8. Is this a “key decision”?

No

**GENERAL FUND REVENUE BUDGET
BUDGET MONITORING SUMMARY 2015/16 - OUTTURN**

	Current Budget for Year	Outturn	Forecast Variance over (under) spend
	£000	£000	£000
Local Services and Enforcement	24,659.6	24,659.5	(0.1)
Culture & Neighbourhood Services	16,001.6	15,989.6	(12.0)
Planning, Transportation & Economic Development	18,055.7	18,035.3	(20.4)
City Centre	318.5	304.9	(13.6)
Property Services	9,120.0	9,117.3	(2.7)
Departmental Overheads	1,798.4	1,809.7	11.3
Housing Services	4,688.2	4,389.2	(299.0)
City Development and Neighbourhoods	74,642.0	74,305.5	(336.5)
Adult Social Care	91,109.9	91,629.5	519.6
Health Improvement & Wellbeing*	16,182.6	15,895.2	(287.4)
Strategic Commissioning & Business Development	762.8	762.8	0.0
Learning Quality & Performance Services	8,576.5	8,576.5	0.0
Children, Young People & Families	48,864.5	55,715.7	6,851.2
Departmental Resources	(4,349.2)	(11,200.4)	(6,851.2)
Education & Children's Services	53,854.6	53,854.6	0.0
Delivery Communications & Political Governance	6,153.9	6,153.9	0.0
Financial Services	12,469.9	12,469.9	0.0
Human Resources	4,553.4	4,553.4	0.0
Information Services	10,524.9	10,524.9	0.0
Legal Coronial & Registrars	2,166.6	2,166.6	0.0
Corporate Resources and Support	35,868.7	35,868.7	0.0
Housing Benefits (Client Payments)	527.6	2,340.6	1,813.0
Total Operational	272,185.4	273,894.1	1,708.7
Corporate Budgets	6,235.5	959.9	(5,275.6)
Capital Financing	14,055.2	13,350.0	(705.2)
Total Corporate & Capital Financing	20,290.7	14,309.9	(5,980.8)
Public Health Grant	(24,575.6)	(24,578.0)	(2.4)
Contribution Reserves	6,906.8	6,906.8	0.0
TOTAL GENERAL FUND	274,807.3	270,532.8	(4,274.5)

Note that the budget for Adult Social Care includes the transfer of the £3m corporate contingency budget for 2015/16

Outturn Divisional Narrative – Explanation of Variances

Corporate Resources and Support

1. Finance

- 1.1. The Division underspent in total by £600k. This was for two reasons, the first being the early achievement of spending review savings within the division. The 2016/17 budget fully reflects the revised position.
- 1.2. The second reason is that the Revenues and Customer Services budget underspent due to difficulties in recruiting suitably experienced staff. The service is also experiencing high workloads due to the levels of data processing in preparation for the full roll out of Universal Credit (UC).
- 1.3. It is proposed to transfer the total underspend to divisional reserves. Previous divisional underspends have been used to fund £1m of the costs of the new IT systems thereby reducing the demand on the capital programme and the use of 2015/16 underspends in this way will continue to avoid the need for capital funding.

2. Human Resources & Workforce Development

- 2.1. Human Resources & Workforce Development underspent by £700k, mainly due to the early delivery of spending review savings in the later part of the financial year. In addition, more income than planned was generated via trading and the Entry into Employment Scheme (E2E) underspent by £82k.
- 2.2. It is proposed to transfer the underspend to the HR reserve. The reserve will support costs arising from additional organisational development support for social care services and the implementation of the new HR system, as well as including ring-fenced monies for the E2E scheme.

3. Information Services

- 3.1. The outturn position for Information Services saw a £1.78m saving across the division.
- 3.2. A major contributing factor was the spending review, which saw a number of posts removed from the establishment and a selective recruitment freeze whilst the review was carried out. These savings were achieved somewhat earlier than had been reflected in the budget monitoring reports during the year. The on-going savings target for the Division is £2.4m by 2017/18 and there is a stepped increase from £0.6m to £1.2m in 2016/17.

- 3.3. Further savings were achieved through robust contract negotiations and cessation and changes in service provision.
- 3.4. Budgets set aside for server and end user device replacement were not fully used, due to annual fluctuations based on the age profile of such devices within the Council and reviews of how IT hardware needs are best met in a more centralised environment and in the light of technological developments. Overall these budgets underspent by nearly £0.5m.
- 3.5. It is proposed that the underspend should be transferred to reserves, to smooth out future budget requirements, to reduce the necessity for future capital funding and to cover any shortfall in the forthcoming next phase of centralisation of ICT budgets and spending and increased Microsoft Enterprise Subscription Agreement licencing costs.

4. Delivery Communications & Political Governance

- 4.1. The Delivery, Communications and Political Governance Division underspent by £701k, due to implementation of the staffing review savings in readiness for a reduced budget from April 2016, together with additional income from trading in Community Languages.
- 4.2. The underspend is to be used to increase the Elections Reserve Fund for future local elections. In addition, a one-off £338k Cabinet Office Grant for Individual Electoral Registration will also be used to increase the Election Fund.

5. Legal, Registration & Coronial Services

- 5.1. Legal Services underspent by £341k. This is largely due to (i) implementation of the staffing savings in readiness for a reduced budget from April 2016; and (ii) temporary vacancies as some posts in the post-review structure have proved difficult to fill due to market forces. In addition, some £90k of additional Land Charges income was achieved due to a continued upturn in the housing market and £12k was generated by Information Governance by selling their services to an external client. It is proposed to transfer the underspend to the Legal Services reserve to cover future transformation costs.
- 5.2. Coronial and Registrars is a demand-led service and overspent by £208k, which has been offset from corporate resources.

City Development and Neighbourhoods

6. Planning, Transportation and Economic Development

- 6.1. As expected, the division achieved a balanced budget, underspending by £20k on a net budget of £18m.
- 6.2. A range of projects were delivered including the renovation and redevelopment of the historic Friar's Mill, the Connecting Leicester programme and the new Haymarket Bus Station with surrounding public realm.

7. Culture and Neighbourhood Services

- 7.1. The former Culture and Neighbourhood Services Division achieved an underspend of £12k on a net budget of £16m.
- 7.2. Sports Services income had been identified as an ongoing area of risk. As anticipated, income fell short of the £5m budget by £150k, although an overall balanced net budget was delivered through management action to reduce spending on pay and running costs. Close attention will continue to be required on these budgets.
- 7.3. Reflecting organisation changes towards the end of the financial year, in 2016/17 the sports service finances will be reported within the Public Health Division and Neighbourhood Services will be included in the Neighbourhood and Environmental Services Division. The remaining services become part of the new Culture, Tourism and Inward Investment Division

8. Local Services and Enforcement

- 8.1. As forecast, the Division achieved a balanced out-turn against a net budget of £24.7m.
- 8.2. The income pressure at the new household waste recycling centre on Gypsum Close was offset by efficiency savings within the waste management service. As expected, Bereavement Services income fell £100k short of the £3.2m budget, due to new crematoria opening in the County. This was compensated by salary and other expenditure savings within the service. These will remain key areas for monitoring in 2016/17.

9. Property

- 9.1. The Property division, including the Central Maintenance Fund, broke even on its budget of £9.1m. The Central Maintenance Fund is a rolling fund for 'landlord'

maintenance responsibilities, with the balance carried forward from year to year to smooth the effect of maintenance costs.

10. Housing Services

- 10.1. The Housing General Fund budget underspent by £298k compared to an underspend forecast at Period 9 of £155k.
- 10.2. Vacancy management across the service and lower than planned use of agency cover contributed to £230k to the underspend. Higher than budgeted occupancy rates in homelessness accommodation contributed £60k to the underspend as forecast at Period 9.
- 10.3. It is proposed to transfer the underspend to the divisional reserve in order to help manage future pressures arising from potential legislative changes affecting local housing support.

11. Housing Revenue Account

- 11.1. 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.
- 11.2. The overall HRA position is a surplus of £1.3m. However the original budget approved a contribution from reserves, and the underlying position is that of a significant underspend. This consists of savings from the day to day management of the housing stock, good management of rent arrears which has kept debt low and funding for capital programme slippage and re-profiling.
- 11.3. Income from rent was £0.5m more than budget, reflecting a decrease in the number of properties becoming void (1,100 compared to 1,500 the year before) and a shorter void time per property. The additional income was partially offset by reduced income from higher than expected Right to Buy sales.
- 11.4. Management and Landlord Services spent £1.3m less than budget. Vacancy management contributed £0.3m, of which £0.2m will be a permanent saving as part of planned budget reductions following the implementation of the new estate management service in September 2015. The Council's two hostels became part of the HRA in December 2015. This was later than planned and resulted in a one-off saving of £0.6m to the HRA but at a cost to the General Fund.
- 11.5. Repairs and maintenance spend was £2.1m less than budget. Craft vacancy management resulted in a £1.2m underspend, of which £0.6m will be a permanent saving as part of planned budget reductions following the implementation of the

new repairs service in September 2016. The in-house building services team undertook more capital work than programmed in the budget, at the expense of the painting programme which therefore underspent by £0.4m.

- 11.6. The above underspends on day to day stock management reflect in part a planned approach to reduce budgets in anticipation of reducing income (as the annual 1% rent reductions take effect from 2016 and right to buy sales continue). The savings can be used to help maintain investment in later years.
- 11.7. In addition, good management of rent arrears has ensured current tenant debt has not increased despite welfare reform changes which created challenging conditions for income collection. The £1.1m of the budget set aside to write off bad debt was not required this year.
- 11.8. The HRA capital programme is substantially funded from revenue contributions, thus the slippage described in the capital outturn report (also submitted to the 22nd June OSC) gives rise to a revenue “underspend” which will be spent in later years.

Adult Social Care

12. Adult Social Care

- 12.1. The financial pressures on Adult Social Care budgets continued as forecast throughout 2015/16. The growth in the population of our city and the increasing needs of our service users as they live longer has meant a significant increase in the number of Council funded care packages over a period of time. This is a pattern which has been experienced across the country.
- 12.2. The service has continued to find savings through a variety of measures, for example: increased preventative work, promoting independence through more use of Independent Living and Extra Care instead of residential care, and increased use of Enablement and Reablement.
- 12.3. The unit costs of care provided by Adult Social Care in Leicester compare favourably with similar local authorities and so too does the mix of provision.
- 12.4. The Council forecasts growth in the number of care packages each year when it sets the budget, based on population estimates. An additional sum to represent demographic growth has been added to the budget every year. Nonetheless, actual numbers are volatile and increasing demand over a number of years has resulted in a shortfall between the annual cost of all current care packages and the available budget.
- 12.5. The underlying gap currently stands at £6m which is 7% of the available budget. There were some one off savings in 2015/16 in Care services and Commissioning as a

result of earlier than anticipated sale of the Arbor and Thurncourt elderly people's homes, together with savings from vacant posts pending the completion of organisational reviews. This has reduced the Department's total overspend in 2015/16 to £5.5m.

- 12.6. A combination of the Department's remaining reserves of £2m and the corporate contingency fund of £3m have been used to finance this overspend. The remaining pressure of £0.5m is offset by other Corporate in-year underspends. The impact of the overall financial pressure in future years has been addressed through the 2016/17 budget which was approved in February 2016.
- 12.7. We now have in place more sophisticated means of tracking service user numbers and package costs throughout the year than has previously been the case. This is allowing us to monitor growth in service users and changes to packages, both planned and unplanned. As a result we will be able to evaluate the progress of our savings initiatives and our assumptions on growth from increased need and rising population in 2016/17.
- 12.8. This monitoring will be done in aggregate but also, more importantly, at a locality level so that Care Management Teams are better able to understand expenditure pressures and therefore better able to control budgets.
- 12.9. The Chancellor's announcement regarding the National Living Wage (£7.20 per hour in 2016/17 rising to an estimated £9.35 by 2020 for people aged 25 and over) will have a significant impact on the Care sector. Most care workers are paid the minimum wage which rose from £6.50/hour to £6.70/hour from 1st October 2015. The potential impact of increased care provider charges has been addressed in the 2016/17 budget.

Health Improvement & Wellbeing

13. Health Improvement and Wellbeing

- 13.1. The Department of Health announced in June that there would be an in year reduction in the Public Health Grant. This was confirmed in November. The services provided by this division are almost entirely funded by Public Health Grant, and therefore bear the brunt of reductions.
- 13.2. The grant of £26.2m was cut by £1.6m (6.2%), although the service was able to reduce its expenditure by a total of £1.9m, resulting in a net under-spend of £0.3m.
- 13.3. The savings have been made through a combination of holding back funds that were not formally committed to projects and reductions in capacity in other services where this could be achieved through focussing only on higher-risk or higher-needs cases. There were also some savings from the general operation of contracts and freezing of vacant posts.
- 13.4. Savings to NHS Health Checks were achieved through delaying the introduction of new NICE guidance. It is currently proposed that this would be re-introduced in future years through savings in other services. Savings to Children's 0-19 services resulted from lower management costs following the transfer of responsibility from the NHS to local government of some services in 2015. Savings to smoking and tobacco have been achieved as a result of a decrease in people using quit smoking services, partly due to the rise in popularity of e-cigarettes.
- 13.5. Other savings within the division have been achieved by an in-year vacancy freeze, reductions in spend on research and intelligence and cancelling planned investment in a number of smaller programmes including a Healthy Nurseries scheme. Savings have also been achieved in sexual health services through a reduction in activity towards the end of the financial year.
- 13.6. The Substance Misuse Spending Review was completed following the successful re-procurement of the service. By developing and procuring the service model in partnership with other bodies (including Leicestershire County Council and the Office of the Police & Crime Commissioner), significant savings have been achieved.
- 13.7. The new contract will save £1.3m in 2016/17, rising to £1.4m per annum in 2017/18 and thereafter. Approval was given at Period 9 for £1m of the saving to be used to deliver the Council's Substance Misuse spending review, and it was noted that the remaining £0.3m of this saving (rising to £0.4m in 2017/18 and future years) would be reallocated within the Health Improvement & Wellbeing service to partly mitigate the impact of the cuts in grant funding outlined above.

- 13.8. The Government announced in November further grant cuts of £0.6m in 2016/17 and estimated cuts of £0.7m each in the years 2017/18 – 2019/20. These will be addressed by a separate spending review programme. It is recommended that the Service's underspend in 2015/16 of £0.3m is set aside (together with an existing £0.6m reserve) in order to fund items including redundancy costs associated with achieving these new spending review targets.

Education and Children's Services

14. Education & Children's Services

- 14.1. The two main financial issues for the Department remain the numbers of looked after children (LAC) and the continued use of agency social work staff.
- 14.2. There are currently 639 LAC at 31st March 2016 compared with 569 at the beginning of the financial year. A significant number of the children requiring placements were at risk of sexual exploitation and some have very complex behaviours including self-harm.
- 14.3. As a result there has been an increase in the number of very expensive external residential placements which now stands at 41, compared to 35 at the start of the year and 25 in 2014. Not only has there been an increase in the overall numbers but the service has also had to move particularly difficult cases to even more specialist (and therefore expensive) provision. We have also seen an increase in agency foster care placements because of the difficulty in finding in-house carers for teenagers.
- 14.4. It is not clear why we have seen this level of increase in LAC numbers, particularly in those where behaviours are complex and therefore expensive to place. The nature of these cases means that there is less likelihood of moving the child to lower cost provision. Discussions with the local judiciary regarding the applications for care orders being presented at the Family Court confirm that care thresholds are being applied appropriately and have not been reduced.
- 14.5. The overall placement budget of £17.3m (including in-house provision) is overspent by £3.7m. The impact of this has been included in the budget for 2016/7.
- 14.6. The other major issue relates to the difficulty in recruiting fully qualified social workers and the resulting continued reliance on more expensive agency staff. Due to the shortage in the market for fully qualified staff the service has recruited newly qualified social workers instead. We will use our existing ASYE (Assessed and Supported Year in Employment) framework in order to develop our own fully experienced social work staff.
- 14.7. This will necessitate the continued use of agency staff into 2016/17 as newly qualified social workers have restricted caseloads and can only deal with children in

need cases. This is a medium-term solution. The additional level of agency staff in 2015/16 has cost an additional £1.9m more than the existing staffing budget.

- 14.8. The Department's overspend for 2015/16 was £6.8m which includes the agency costs, LAC placements and other related LAC cost pressures. This was financed by departmental reserves. To address the ongoing budget pressures of high LAC numbers and social worker workforce plans in 2016/17, the department will need to use its remaining reserves as outlined in the 2016/17 budget report.

15. Schools

- 15.1. Schools surplus balances have increased by £2.3m from £18.5m last year to £20.8m at the end of this financial year with the largest increases in secondary and special schools. There were 4 primary schools and 1 secondary school in financial deficit in 2015/16 compared with 3 and 1 respectively in 2014/15.
- 15.2. There has been an ongoing inflow of new arrivals into the city who require school places which has both capital and revenue implications.
- 15.3. The revenue implications arise where we have to provide additional funding to schools from money set aside from the Dedicated Schools Grant to compensate them for additional costs. Where new arrivals are not in place in schools at the October 2015 pupil census then we do not receive funding from the Department for Education (DfE) until April 2017. In the 2014/15 academic year there were 2,546 in-year applications for places. The equivalent figures in 2013/14 and 2012/13 were 1,900 and 1,364 respectively.
- 15.4. There have been 2,170 new arrivals in the 2015/16 academic year which is slightly lower than for the same period in 2014/15. In 2015/16 we used £1.2m of additional contingency funding to address pupil growth over and above that which was planned.
- 15.5. The DfE have launched their consultation on the new National School Funding Formula which will be effective from 1 April 2017. This first stage of the consultation only focuses on principles and does not provide any data upon which to estimate the financial impact on schools or the local authority. In short the local authority will no longer be able to set the school funding formula, schools will not be able to de-delegate funds back to the local authority and the funding of High Needs will change significantly. The Education Services Grant provided to LAs (and Academies) for centrally provided services will also reduce dramatically.
- 15.6. Some of these changes will take place from 1 April 2017 whilst others will not be fully effective for two years. There will be a significant impact on LA provided services and this will begin from 2017/18 – for example School Improvement will no longer be provided by the LA from August 2017 as directed by the DfE. The impact

on schools and the Council will be fully evaluated following stage two of the consultation when the DfE provide more financial information on the new funding levels.

Revenues & Benefits and Corporate Items

16. Housing Benefits

- 16.1. Every year, the Council makes payments of around £150m to Housing Benefits claimants, based on their individual circumstances. This is a crucial support to enable people on low incomes to meet their housing costs.
- 16.2. Housing Benefit payments made by the Council to claimants are reimbursed by the Government, except where subsequently discovered to have been paid in error. In these cases, subsidy is paid at a reduced rate, but the Council is able to retain any monies recovered from claimants. Most overpayments are due to claimant error, often arising because they have not told us of changes in their circumstances.
- 16.3. Where the overpayment is due to claimant error, subsidy is received for 40% of the value of the overpayment; the Council must therefore recover at least 60% of the value of such overpayments (on average) if we are not to lose money. Inevitably, such debt is often very difficult to collect.
- 16.4. In common with other local authorities, we have recently been discovering an increased level of overpayments. A prime reason for this is a government initiative to “clean” the Housing Benefit data they will inherit at the start of Universal Credit. They have done this by matching our data to HMRC records – a source of information not previously available to us.
- 16.5. Inevitably, this exercise has identified that some claimants received more than they should have done. Overpayments discovered in 2015/16 amounted to £7.8m compared to £6.8m in 2014/15 and £6m in 2013/14. Some of the overpayments occurred up to two years ago and so are particularly difficult to explain to claimants and subsequently collect. Rising levels of overpayments require the Council to set money aside for bad debts. £4m has been set aside in 2015/16.
- 16.6. Additional resources have been provided to recover overpayments. We are also making common cause with other local authorities in seeking additional subsidy for losses caused by Government action.
- 16.7. Compounding the issue is the continued need to set aside resource for subsidy disqualified following audit. This is a constant issue arising from past audits necessitating much more testing at Leicester than at other authorities. We have asked Government to help us break this cycle, so far to no avail.

- 16.8. The overall impact is that the budget for Housing Benefit of £0.5m has been exceeded by £1.8m, which has reduced the amount of corporate money saved in 2015/16 (see section 17 below).

17. Corporate Items

- 17.1. The corporate budgets cover a range of one-off items as well as ongoing activities including the Council's capital financing costs, audit fees, bank charges and levies. After allowing for the problems with Housing Benefit spending and the overspend in Adult Social Care, there has been a net saving of £3.6m on these items, principally due to the impact of spending review savings.
- 17.2. The corporate contingency budget for 2015-16, set at £3m, has been fully transferred to the Adult Social Care department to offset the pressures faced in the year as outlined above, and as indicated at Period 9.
- 17.3. As part of the Council's budget strategy, when spending review savings are agreed in-year, the relevant service budget is reduced. During 2015/16, spending review savings of £2.2m have been realised including £1.35m from Corporate Resources and £0.6m from IT.
- 17.4. In addition to Spending Review savings, there were a number of smaller contingencies that were not required during the year, as well as savings of £0.3m on carbon reduction commitment costs and £0.1m on audit and banking costs. The Council's capital financing costs were £0.7m lower than budgeted due to the Council's strong cash position and a slightly improved return on investments (which reflects our ability to use a wider range of investments than we chose to immediately following the financial crisis).
- 17.5. It is proposed to use the underspend on corporate budgets to make a contribution of £3.6m to the Economic Action Plan. Since 2013/14, the Council's Capital Programmes have focused on investing in the City's neighbourhoods. The Economic Action Plan complements the capital programme by ensuring that funding continues to be available for priority projects within the city centre. Further executive decisions would be required to allocate this funding to specific schemes.

Earmarked Reserves – Year-end Summary

1. Summary

- 1.1. Earmarked reserves represent sums set aside for specific purposes. This is in contrast to the General Fund, which exists to support the Council's day-to-day operations.
- 1.2. Reserves are created or dissolved with the approval of the City Mayor. Directors may make contributions to reserves provided that the purpose of the reserve is within the scope of the budget ceiling from which the contribution was made. Directors may withdraw money from reserves to support spending that is consistent with the purpose for which the reserve was created.
- 1.3. Information on the larger reserves is set out detailed below. Some of the balances shown include transfers for which approval is sought in the recommendations to this report.

2. Description of Reserves

- 2.1. Ring-fenced reserves hold funds that are held by the Council but for which we have obligations to other partners or organisations. These include funds held on behalf of the City's schools and funds held as part of joint working arrangements with the NHS.
 - 2.1.1. **Schools Balances (Revenue):** The amount held in this reserve has increased from £18.5m to £19.6m following this year's outturn. This money is, by law, ring fenced to individual schools (subject to any clawback of excessive balances, which are returned to the overall Schools Budget)
 - 2.1.2. **Dedicated Schools Grant Balances:** This represents grant received by the Council, which has not been delegated to schools or spent on relevant non-delegated functions. The balance currently stands at £16.7m, and is ring fenced by law and is therefore not available for general spending. Plans for utilising DSG balances are developed in consultation with the Schools' Forum
 - 2.1.3. **NHS Joint Working Projects:** This balance in this reserve has decreased in 2015/16 from £5.8m to £5.3m. The Government has provided funding for joint working between adult social care and the NHS. The Council has undertaken to agree the use of these funds with the NHS and allocate them to projects benefitting the delivery of health and social care. All funds directed in this way are subject to section 256 agreements which are signed by both parties.

- 2.1.4. **School Capital Fund:** Schools are able to set aside resources to support future capital spending to enhance their facilities or resources. This reserve holds the funds set aside. The reserve was decreased by £0.8m in the year from £3.6m to £2.8m.
- 2.1.5. **Schools Buy Back:** This reserve contains funds set aside by schools from their delegated budgets to support investment in the catering service they receive through the City Catering operation. It holds a balance of £0.9m, a decrease of £0.1m in the year.
- 2.1.6. **Public Health:** The Public Health service was transferred to the local authority from 1st April 2013. This required a reserve to be set-up to hold public health monies which were held in the PCT (Primary Care Trust) prior to the transfer of the service. This reserve now stands at £0.6m
- 2.2. Corporate reserves are those held for purposes applicable to the organisation as a whole and not to any specific service, or those administered corporately. They include:
 - 2.2.1. **Budget Strategy – Managed Reserves Fund:** This reserve holds the funds set aside as part of the “managed reserves” budget strategy adopted by the Council in recent years. The strategy aimed to build up reserves to buy time for the savings necessitated by Government funding cuts to be delivered in a structured way. At the end of 2015/16, the reserve stands at £40.9m, but from 2016/17 this funding is required to support the Council’s revenue budget and the reserve is expected to be fully used by the end of 2017/18
 - 2.2.2. **Building Schools for the Future:** This reserve was set up in January 2007 to meet the capital expenditure costs associated with the BSF programme. The balance at year-end stands at £24.8m and exists to manage costs over the remaining life of the BSF scheme and lifecycle maintenance costs of the new schools.
 - 2.2.3. **Capital Fund:** This Capital Fund represents resources set aside to support approved spending on the Council’s capital programme. The balance at the end of 2015/16 is expected to be around £13.5m but the final position will depend on decisions around the financing of 2015/16 capital expenditure.
 - 2.2.4. **Insurance Fund:** The Council’s self-insured Insurance Fund stands at £11.1m together with a further £5.2m provision for known claims. The fund is deemed to be sufficient to meet known and potential claims.
 - 2.2.5. **Severance:** Established as part of the 2010/11 budget and added to since, this reserve was created to meet the redundancy and other costs arising from budget cuts. £1.97m of severance costs were funded in 2015/16 and the remainder of the reserve is required to meet future severance costs arising from spending reviews in 2016/17 and future years.

- 2.2.6. **Service Transformation Fund:** This reserve (£6.1m) is to fund projects which redesign services enabling them to function effectively at reduced cost. The reserve is fully committed and a further £3m will be added in 2016-17.
- 2.2.7. **Welfare Reform Reserve:** This reserve (£4.5m) was created in 2013/14 from parts of several budgets created to support welfare claimants, who face severe difficulties due to changes in Government rules governing entitlement and to facilitate these changes (such as the council tax support scheme and capping of housing benefit). It is to be used to a continuing programme of crisis support, following cessation of government funding. In 2013/14 the DWP transferred the responsibility for providing crisis support to financially vulnerable households to local authorities. Corresponding funding was provided for 2013/14 and 2014/15 however government then ceased this funding (of £1.6m pa). This reserve ensures that we can continue to provide hardship relief and crisis support for those in need in accordance with our approved policy for the next few years.
- 2.2.8. **Energy Reduction Reserve:** This reserve (now standing at £1.5m) was created in the 2013/14 budget to fund future investment in energy saving technology to both make savings and improve the Council's environmental impact.
- 2.3. Other reserves are those held for specific services or projects, including departmental reserves. These include:
- 2.3.1. **Financial Services divisional reserve:** The balance for this reserve now stands at £3.9m which is an increase of £1m from the position at the beginning of the year. This balance is primarily being held to support future expenditure on the implementation of the Council's main Finance and HR systems and thus continue to minimise the need for capital resources to finance these projects. The reserve will also be used to provide additional resources to support increasing demand from residents within the benefits service which is required as the administration grant from government continues to be cut despite no reduction in caseload, and to fund projects arising from the channel shift programme increasing the digital offer to residents. Any surplus monies will be returned to the general reserve.
- 2.3.2. **Children's Services Funds:** The balance of £3.4m represents the Children and Educations departmental reserve. As noted in Appendix B, this reserve is expected to be fully utilised in 2016/17 to support the service's revenue budget, including actions arising from the 2015 Ofsted inspection.
- 2.3.3. **Corporate IT Development Fund:** This reserve is held for various on-going IT developments, many of which span financial years. The corporate IT fund currently stands at £3.3m – an increase of £1.8m in the year. Annual ICT development expenditure can vary enormously year to year so this fund is used to manage

expenditure over the life of the projects. The reserve also funds a rolling replacement programme for the council's hardware and in particular computer and telephony equipment for staff. There is a significant move from desktop computers to laptops (which are more expensive) and as we continue to promote flexible working and reduce our buildings profile then the change in our IT estate will continue to place demand on this reserve. A significant increase in cyber-attacks has also necessitated a review of IT security infrastructure and it is expected that considerable investment in this area will be required in 2016/17.

- 2.3.4. **Channel Shift Reserve:** This reserve was set up in 2014/15 to fund work across the Council to both improve the customer experience and make savings through increasing the proportion of interactions with residents that use web-based and self-service systems, or streamlined customer services operations. The reserve stands at £1.7m, having spent £0.3m in 2015/16 to support the new Customer Relationship Management system and a programme of work has been approved which will use the remaining balance over the next 2 years.
- 2.3.5. **City Development & Neighbourhoods departmental reserve:** This reserve stands at £1.5m and has reduced by £0.3m in 2015/16, largely through supporting events connected to the Rugby World Cup.
- 2.3.6. **Looked After Children Placements:** This reserve (£1.5m) is to assist with managing the volatility of placement demand and cost increases. It is likely to be used to support the service's revenue budget in 2016/17.
- 2.3.7. **HR Divisional Reserve:** This reserve has increased by £0.7m to £1.4m in the year and, as outlined in Appendix B, will provide resources for continued organisational development support to social care services and the delivery of the new HR system.
- 2.3.8. **City Council Elections:** This reserve has increased by £0.7m to £1.2m in the year. The reserve will meet costs arising from local elections and the EU referendum during 2016/17.
- 2.3.9. **Strategic Initiatives:** This reserve stands at £1m and holds funds to deliver key strategic projects. It is used to fund key initiatives of a revenue nature.
- 2.3.10. **Surplus Property Disposal Reserve:** This reserve stands at £1m and is available to fund potential revenue costs of disposing of surplus property assets and thereby generating savings and delivering capital receipts.
- 2.3.11. **Other earmarked reserves:** There are a number of smaller reserves put aside for specific purposes totalling £8.9m overall. These reserves all total less than £1m each and reduced by a net £2.9m in the year, including £2m used to support the Adult Social Care revenue budget.

Earmarked Reserves - Balances

	<u>Year end balance</u>	<u>Net movement</u>	<u>Year End Balance</u>
	<u>31st March 2015</u>	<u>in year</u>	<u>31st March 2016</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Ring-fenced Reserves</u>			
Schools' Balances	18,518	1,065	19,583
DSG not delegated to schools	19,803	(3,098)	16,705
NHS Joint Working Projects	5,802	(526)	5,275
School Capital Fund	3,632	(803)	2,829
Schools Buy Back	1,014	(90)	923
Public Health	610	-	610
Total ring-fenced	49,378	(3,453)	45,926
<u>Corporate reserves</u>			
Budget Strategy - Managed Reserves Fund	34,029	6,906	40,935
Building Schools for the Future - Financing Capital Fund	24,316	496	24,812
Insurance Fund	15,792	(2,261)	13,531
Severance	8,813	2,268	11,081
Service Transformation Fund	10,495	(1,976)	8,519
Welfare Reform Reserve	7,086	(951)	6,136
Energy Reduction Reserve	5,027	(494)	4,533
	2,862	(1,397)	1,465
Total corporate	108,420	2,591	111,011
<u>Other</u>			
Financial Services Divisional Reserve	2,891	996	3,887
Childrens Services Funds	3,873	(522)	3,351
IT Reserves	1,521	1,785	3,306
Channel Shift Reserve	2,000	(298)	1,702
CDN Departmental Reserve	1,855	(280)	1,575
Looked After Children Placements Reserve	1,525	-	1,525
HR Divisional Reserve	689	708	1,396
City Council Elections	400	720	1,120
Strategic Initiatives	1,043	-	1,043
Surplus Property Disposal Reserve	1,000	-	1,000
Preventing Homelessness	899	(74)	825
Legal Services Divisional Reserve	480	341	821
Housing divisional reserve	790	3	793
Health & Well-Being Divisional Reserve	727	-	727
Individual Electoral Registration	637	(18)	619
Economic Action Plan	736	(252)	484
Social Care Replacement IT System	747	(393)	354
Delivery Communications & Political Governance	338	-	338
Housing Related Support Reserve	331	-	331
Markets Reserve	500	(330)	170
Adult Social Care Budget Pressures	2,000	(2,000)	-
Highways Maintenance	418	(418)	-
Other - Miscellaneous Reserves	2,872	215	3,087
Total other	28,272	183	28,455
TOTAL EARMARKED RESERVES	186,071	(679)	185,392