

# FINAL REVENUE AND CAPITAL OUTTURN 2006/07

## PORTFOLIO RESPONSIBILITY: RESOURCES

CABINET

7 JUNE 2007

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### Wards Affected

Countywide.

### Purpose

1. The purpose of this report is for Cabinet to consider and approve:
  - the final outturn position for 2006/07;
  - Corporate Management Board's proposals for carry forward of unspent budget into 2007/08;
  - the creation of new reserves and provisions in the 2006/07 Accounts

### Key Decision

This is not a Key decision.

### Recommendations

That the Cabinet approves:

- (a) **the final outturn for 2006/07;**
- (b) **CMB's recommendations for carry forward of unspent budget into 2007/8;**
- (c) **the movements to reserves outlined in the report**

### Reasons

2. Whilst work continues on the range of tasks necessary to prepare the Council's statutory Statement of Accounts for 2006/07, it is sufficiently advanced for Cabinet to consider the final outturn for the revenue account.
3. On 29th June 2007 the full Statement of Accounts for 2006/07 will be presented to the Audit and Corporate Governance Committee for formal approval. This will ensure the Council meets the statutory deadline for the approval of the accounts.

## Considerations

### DIRECTORATE BUDGET OUTTURNS FOR 2006/07

4. An overall summary of the outturn position for Directorate budgets is as follows:

	<b>£000</b>
<b>Directorate outturns 2006/07</b>	
Adult & Community Services – an <b>over</b> spend	1,023
Children & Young People's Services – an <b>under</b> spend	-139
Corporate & Customer Services – an <b>over</b> spend	191
Environment – an <b>under</b> spend	-274
Human Resources – an <b>over</b> spend	5
Resources – an <b>under</b> spend	-589
Chief Executive's – an <b>under</b> spend	-60
Corporate budgets – an <b>under</b> spend	-314
<b>Net Directorate Under Spend</b>	<b>-157</b>

5. The above table shows that the final outturn position for 2006/07 was an under spend of £157k on directorate budgets before any adjustments for new reserves or use of revenue contingencies. The explanation of significant variances is included in the summary covering each directorate.
6. It is important to distinguish between the financial performance of directorates and the final overall revenue outturn of the council. The following table gives the overall position after allowing for transactions not under the control of directorates:

	<b>£000</b>
<b>Net Directorate outturn 2006/07 – an Under Spend</b>	<b>-157</b>
Additional income from Financing Transactions	-1,459
Part use of the Adult and Children's Services revenue contingency to cover the Adult & Community Services overspend	-1,023
Proposed use of Environment underspend to add to waste reserve	274
Proposed reserve to reflect anticipated statutory changes to accounting requirements for interest on the council's loans	505
Additional dividend income from West Mercia Supplies	-81
Unbudgeted income from the Local Authority Business Growth Incentive scheme	-1,417
Adjustment to the central government grant funding so that it reclaims previous years' overpayment	165
<b>Net Revenue Under Spend</b>	<b>-3,193</b>

7. The overall position is an underspend of £3.193m on the council's 2006/7 revenue

account. This compares to a forecast outturn for the year in the final Integrated Performance Report (IPR) of an underspend of £3.435m. Whilst the final position is close to the last projection it would have been closer still but for key changes included in this report such as the request to set up a reserve to reflect anticipated changes to statutory accounts. The position shows a more consistent financial projection over the year but the final outturn included variations that became evident at the end of the financial year and these are outlined in the report.

8. In 2006/07 there has been a general improvement in service managers' assessment of likely spend commitments. The more transparent budget carry forward arrangements introduced last year may have encouraged service managers to provide a more accurate assessment of spend for the year as part of routine budget monitoring procedures. The process adopted by Cabinet last year ensures that budgets that are unspent at year-end (for a genuine reason) will be carried forward into the new financial year to support of corporate priorities.
9. A consistent theme of the Performance Improvement Cycle (PIC) and the approach to managing budgets is the development of a culture for financial management where cash is treated as a corporate resource by all levels of the Council. The PIC confirms that service managers will be encouraged and supported by staff in the Resources Directorate to concentrate their energies on delivering improved services at or below the available budget in line with corporate priorities rather than on protecting resources for their own particular service area.
10. The Council's external auditor will be looking for evidence of improvement as part of the review of our self-assessment for the financial management theme within the Use of Resources assessment. Financial Services is working with service directorates to improve the level of accuracy in our budget monitoring arrangements. Revised financial management training is now in place so that the areas covered by the Use of Resources assessment (financial reporting, financial management, financial standing, internal control and Value for Money) can improve. A council cannot be rated as excellent overall if it scores less than a 3 for Use of Resources.
11. The outturn position is good news as it improves the Council's financial standing – one of the themes in the Use of Resources assessment – providing some additional flexibility for matching cash resources to corporate priorities into the future. The above tables demonstrate that the underspend is overwhelmingly accounted for by corporate activity and to some extent fortuitous underspends. This indicates directorates are spending within their resources and using their budgets on service provision. A refreshed Medium Term Financial Strategy is currently in preparation for Cabinet to consider and will build on an improved opening resource position for 2007/08.
12. A summary of the key variations between outturn and budget for each Directorate is provided in the following paragraphs.

#### **Adult & Community Services**

13. Before application of the centrally held revenue contingency the directorate over spent compared to budget by £1.023m in 2006/07. The forecast outturn at month 12 was for an over spend of £698k. The change in position reflected a reassessment of commitments against the Community Services budgets.
14. The major areas of over spending were Learning Disability (£1.071m), Mental Health (£481k) and Physical Disability (£341k).
15. Older People's services saw a significant underspend of £811k mainly due to

services being funded by the Access and Systems capacity grant. This made a significant contribution to controlling the directorate's level of overspend.

16. In line with national trends, the major area of concern was Learning Disabilities, where the overspend amounts to 12.3% of the budget with pressures being noted around community care residential, nursing care and agency placements.
17. Mental Health, which is subject to a section 31 agreement led by the PCT, overspent by 10.5%. Again, community care placements proved to be the major cost pressure.
18. Physical /Sensory Disabilities overspent by 11.5% with community care packages being the major contributory factor. In the latter part of the year, there has been some success in reducing the number of care packages from 31 to 29.
19. Compared to the previous year's overspend on Strategic Housing the 2006/07 position was an underspend of £166k. The areas of Homelessness, Enabling, Private Sector Housing and Supporting People all saw underspends largely produced by service changes leading to improved outcomes.

### **Children & Young People's Services**

20. This directorate under spent by £139k in 2006/07. The forecast outturn at month 12 was for an over spend of £122k excluding schools budgets. This represents an improvement in financial performance of some £261k excluding schools budgets.
21. Safeguarding and assessment budgets saw a significant overspend of £554k. This includes a £528k overspend on external agency placement budgets where the number of placements doubled in 2006/7. Increased fostering placements led to a £255k overspend and social work budgets overspent by £144k. Without an underpend of £373k on assessment and family support the position would have been considerably worse.
22. There were significant under spends on school transport (£373k) due to route reviews and falling rolls. The school improvement service also underspent (£186k) mainly due to delayed staff appointments.
23. The provisional level of school balances as at 31st March, 2007 is £8.015m compared with £8.653million for 31st March 2006. This is a reduction of £638k (7.4%).
24. School revenue balances show a reduction of £2.097m (29.6%) and capital balances an increase of £1.525m (134.8%). The capital balances have more than doubled probably due to schools transferring money to capital to avoid the revenue clawback rules the council has indicated it will use if balances do not reduce. The rules around school funding do not permit balances transferred to capital to revert to revenue in the future. As a result transferred balances must be spent on capital items. Schools will be asked to confirm they have definite expenditure plans to use the capital balances.
25. A full report on the level of school balances at the end of the financial year 2006/07 will be considered at the next Schools Forum.

### **Corporate & Customer Services**

26. This directorate overspent by £191k. The forecast outturn at month 12 was for an

overspend of £568k and this represents an improvement in financial performance of some £377k. This reduction largely resulted from expenditure anticipated in the ICT service area not being made.

27. The ICT trading budget was in deficit at year-end by £255k due to expenditure exceeding Service Level Agreement income.
28. The ICT Corporate Projects base budget balanced at year end after a review that indicated considerable activity related to Herefordshire Connects. It was also evident capital expenditure had been incorrectly included in the revenue budget.
29. The other main variances in the directorate were in Policy & Performance Management where an underspend of £138k was due to vacancies and Legal and Democratic Services where a £95k overspend reflected increased activity on corporate projects. In addition the directorate saw various one-off costs for Herefordshire Connects and additional voluntary sector support.

### **Environment**

30. This Directorate under spent compared to budget by £274k. The forecast outturn at month 12 was for an under spend of £571k. This represents a movement of £297k.
31. The major variances were in Environmental and Trading standards where a significant underspend on the waste management contract resulted from contract variations not occurring at anticipated times. Areas of over spending included Highways Winter Maintenance, Street Cleansing and Public Conveniences.
32. Planning fee income was higher than budgeted for the year but concessionary fares overspent showing evidence of strong uptake.
33. The underspend on the budget is recommended to be used to increase the level of the Waste Management Reserve rather than carried forward for other areas of corporate support.

### **Human Resources**

34. This Service over spent compared to budget by £5k .The forecast outturn at month 12 was for a spend at budget.

### **Resources**

35. This Directorate under spent compared to budget by £589k. The forecast outturn at month 12 was for an under spend of £150k.
36. The major cause of the improved performance is confirmation that the significant improvement in benefits processing times has affected the level of subsidy from the Department of Work and Pensions. The main factors being faster processing and improved quality have reduced local authority error by over 50% and secured additional overpayment subsidy; tighter controls have avoided payments above the threshold for homelessness cases in bed and breakfast accommodation and a review of cases in specific categories has led to successful appeals against payment of some claims.
37. The budget for the council tax service benefited from a significant increase in income from summons and court costs which were increased from £30 to £53 from 1st April 2006.The higher level of costs had been expected to reduce the overall number of summons issued but this did not happen leading to an increase in income.

38. There were variations within the Property Services budget. An over spend on Administrative Buildings was more than offset by under spends on Industrial Estates and Retail Properties.

### **Corporate Budgets**

39. Corporate budgets showed an under spend at outturn.
40. The main reasons for the under spend compared to the original budget are as follows:
- Local Authority Business Growth Incentive grant income not included in the original budget for the year (£1.417m);
  - Additional West Mercia Supplies dividend (£81k); and
  - Significantly better income from cash transactions of (£1.459m) as a result of significant slippage in the capital programme that meant delays in payments for schemes and the consequent increased investment income.

### **DIRECTORATE BUDGET CARRY FORWARD PROPOSALS**

41. As previously indicated whilst the overall underspend is £3.193m the directorate underspend position is only £157k. The overwhelming majority of the underspend being the result of activity outside of the controllable influence of directorates.
42. It is important that total budget carry forwards into 2007/08 did not exceed the £157k of directorate under spends in 2006/07 outlined in the table in paragraph 4. This was the approach adopted in 2005/06. However, as in previous years it is recommended that any underspend on the Chairman's Fund is also carried forward. In 2006/7 this totalled £10k.
43. The budget carry forwards must support corporate priorities and on this basis the following bids are recommended to Cabinet for approval:
- Allocating budget in 2007/08 for corporate priorities to support Herefordshire Connects (£122k) and;
  - Meeting the need to complete the Idox installation to improve performance in benefits (£25k) and ensure we meet a Use of Resources improvement measure as part of the CPA process.

44. The following table summarises CMB's proposals for budget carry forwards:

<b>£000</b>
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<b>Total under spend available for carry forward</b>	<b>£157k</b>
<b>Less:</b>	
Herefordshire Connects	122
Other	10
Idox installation	25
<b>Total</b>	<b><u>157</u></b>

## GENERAL RESERVES

45. Having considered the outturn position for 2006/07 and CMB's budget carry forward proposals, it is now possible to update Cabinet on the level of general reserves as at 31st March 2007.
46. The overall level of underspend is £3.193m after allowing for the specific reserve movements outlined at paragraph 47 and the movements do not use all the underspend even after allowing for the carryforward request of £157k for directorate underspends. The level of general reserve as at 31st March 2006 included £3.7m of budgets carried forward into 2006/07. This left £10.8m that was uncommitted but a number of changes totalling £4.965m were included in the Medium Term Financial Management Strategy (MTFMS) reflecting a move to specific reserves. After allowing for these movements the level of general reserve is £8.7m at the end of 2006/07.

## SPECIFIC RESERVES

47. The Director of Resources requests that Cabinet approve the following reserve movements in the accounts:

Title	£000	Reason
Waste Management	274	In 2006 a specific reserve was set up. The amount had previously been in a general reserve and built up in recent years to provide funding flexibility following the renegotiation of the Waste Management Contract. This addition means the total reserve will now be £2.274m.
Lender Option Borrower's Option loans (LOBOs)	505	The move to make local government accounts comparable with the private sector will affect the accounting treatment of interest on a type of loan. This will have a worst case impact of £505k on our accounts. A new reserve is requested.
Standards Fund	377	The request is to set up a specific reserve for unspent Council match funding for the Children and Young People's Standards Fund. In previous year's this has been shown as a underspend and carried forward but this treatment has distorted the year end position.

## 2006/07 CAPITAL PROGRAMME OUTTURN

48. The capital outturn for 2006/07 totals £40.949m, which is a decrease of £3.143m from the January forecast. The total of agreed bids for 2006/07 was £60.6m. This decrease represents re-profiling of spend on Riverside Junior and Infant School Amalgamation, Sutton Primary School Replacement, Cattle Market and Aylestone Hill Park. This will result in slippage on capital financing costs incurred in the revenue budget from 2006-07 into future years.
49. The capital receipts reserve totals £21.711m, £10.332m of which is ring fenced to fund the Strategic Housing capital programme following LSVT. Whilst this is better than the £20.070m balance at the end of 2005/6 the total has been committed to various capital schemes including the provision of a new cattle market, however future total expected capital receipts are expected to exceed total commitments over the next three years.

## DIRECTOR OF CHILDREN AND YOUNG PEOPLE'S SERVICES

### Directorate Outturn

	£m
Budget Reported as at 31 January 2007	£11.051
Capital Budget Decreases	
• Sutton Primary School Replacement (slippage)	(£1.075)
• Riverside Junior & Infants School Amalgamation (slippage)	(£894k)
• Kington Children's Centre (complete)	(£256k)
Capital Budget Increases	
• Weobley High Sports Hall (additional spend)	£433k
Other budget revisions (<£100k)	(£251k)
2006-07 Outturn	£9.008m

50. In December and January tenders were received for the major capital projects at Sutton County Primary and Riverside Primary School respectively. Both projects are proceeding and revised cashflows have been provided.
51. Kington Children's Centre is now complete, this scheme was funded by capital grant and the remaining total grant funding will be used to provide five children's centres throughout the County over the next year.
52. Weobley High Sports Hall has overspent following foundation problems, this has been funded through the general central government SCE® funding allocation.



## DIRECTOR OF RESOURCES

### Directorate Outturn

	£m
Budget Reported as at 31 January 2007	£3.133m
Capital Budget Decreases	
• Cattle Market (slippage)	(£693k)
Other budget revisions (<£100k)	(£71k)
2006/07 Outturn	£2.369m

53. The deposit for the new cattle market site was paid in 2006-07, the balance due towards the payment of the land has been carried forward into 2007-08.

## DIRECTORATE OF CORPORATE AND CUSTOMER SERVICES

### Directorate Outturn

	£m
Budget Reported as at 31 January 2007	£3.742m
Capital Budget Increases	
• Info by Phone (overspend)	£299k
• CAPS (capitalisation)	£230k
Capital Budget Decreases	
• E-Gateway (no longer required)	(£254k)
• Disaster Recovery (slippage)	(£171k)
Other budget revisions (<£100k)	(£39k)
2006/07 Outturn	£3.807m

54. The Info by Phone capital scheme overspent in 2005/6. Part of this overspend has been funded by capital grant, the remainder (£29k) has been funded by additional prudential borrowing over and above the £1.5m successful capital bid funding allocation, additional costs are being incurred in 2007-08.
55. There have been budget revisions to CAPS and E-Gateway representing capital and revenue spend allocations, these schemes are grant funded. Slippage on the disaster recovery scheme has been carried forward.

## DIRECTOR OF ENVIRONMENT

### Directorate Outturn

	<b>£m</b>
Budget Reported as at 31 January 2007	£12.301m
Capital Budget Increases	
• Rotherwas Access Road (additional spend)	£1.369m
• Principal Roads (capitalisation)	£375k
Capital Budget Decreases	
• Assessment & strength of bridges	(£333k)
• Crematorium (slippage)	(£158k)
• Waste Performance and Efficiency (slippage)	(£129k)
• Embankments	(£107k)
Other budget revisions (<£100k)	(£121k)
<b>Outturn 2006-07</b>	<b>£13.197m</b>

56. The Rotherwas Access Road additional spend represents purchases of land following the award of contract works, this is funded by AWM grant.
57. The Crematorium forecast has slipped further to reflect that payment for the land was not completed, progress is made with an anticipated start on site in August.

## **DIRECTOR OF ADULT AND COMMUNITY SERVICES**

### **Directorate Outturn**

	<b>£m</b>
Budget Reported as at 31 January 2007	£13.865m
Capital Budget Decreases	
• Aylestone Hill Park (slippage)	(£452k)
• Affordable Housing Grants (slippage)	(£261k)
• Disabled Facilities Grants (committed)	(£200k)
• Hereford High Town (slippage)	(£154k)
• Mobile Libraries (slippage)	(£109k)
Other budget revisions (<£100k)	(£122k)
<b>Outturn 2006-07</b>	<b>£12.567m</b>

58. Slippage on the work on Aylestone Hill Park followed delays obtaining consent from the Environment Agency planned works are under review.
59. The affordable housing grant spend slipped due to delays on two mortgage rescue cases and three part ownership schemes expected to complete before March 2007. During 2006-07 56 additional affordable dwellings were completed with grant funding and 126 without.
60. Spend on mandatory disabled facilities grant has slipped following the implementation of a longer scheme selection process. Initial feedback on changes to the scheme with individual grant allocations increasing from £25k to £30k is expected in July.

61. Hereford High Town slippage represents works to Bewell Street and Widemarsh Street to be started in January 2008, prudential borrowing funding has been carried forward accordingly.
62. The purchase of a mobile library has slipped and is expected to be completed in June, prudential borrowing funding has been carried forward accordingly.

## **Risk Management**

The Council is required to publish end of year BVPI outturns by 30 June and to ensure the closure of accounts within statutory deadlines. Failure to do so carries a reputation risk for the Council in relation to its corporate governance role.

## **Consultees**

The relevant internal officers have been consulted. No external consultation was considered necessary.

## **Background Papers**

None identified.