

FINAL REVENUE OUTTURN 2005/06

PORTFOLIO RESPONSIBILITY: RESOURCES

CABINET

15TH JUNE, 2006

Wards Affected

Countywide.

Purpose

1. To consider and approve:
 - the final outturn position for 2005/06;
 - Corporate Management Board's proposals for carry forward of unspent budget into 2006/07;
 - the creation of new reserves and provisions in the 2005/06 Accounts; and
 - a revision to the Council's policy on the minimum level of general reserves and working balances.

Key Decision

This is not a Key decision.

Recommendations

- That**
- (a) the final outturn for 2005/06 be approved;**
 - (b) CMB's recommendations for carry forward of unspent budget into 2006/7 be agreed;**
 - (c) the creation of the new reserves in the 2005/6 Accounts be approved; and**
 - (d) an increase in the minimum level of general reserves and working balances of £1.5m to £4.5m or 3.75% of budgeted net revenue spending excluding schools budgets be agreed.**

Reasons

2. Whilst work continues on the range of tasks necessary to prepare the Council's statutory Statement of Accounts for 2005/06, it is sufficiently advanced for Cabinet to consider the final outturn for the revenue account.

3. The full Statement of Accounts for 2005/06 will be presented to the Audit Committee for formal approval on 30th June 2006. Approval on this date will meet the statutory deadline for the approval of the accounts.
4. The Audit Committee will receive a report giving additional information in respect of the 2005/06 Statement of Accounts. It will also receive routine supplementary reports on early retirements, redundancies and changes in the Council's bank account arrangements during the year.

Considerations

DIRECTORATE BUDGET OUTTURNS FOR 2005/06

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

	£000
Directorate outturns 2005/06	
Adult & Community Services – an over spend	1,568
Children & Young People's Services – an under spend	-1,541
Corporate & Customer Services – an under spend	-1,514
Environment – an under spend	-847
Human Resources – an under spend	-70
Resources – an under spend	-135
Chief Executive's – an under spend	-13
Corporate budgets – an under spend	-1,167
Net Directorate Under Spend	3,720

6. The above table shows that the final outturn position for 2005/06 was an under spend of £3.7m on Directorate budgets. This compares to a forecast outturn for the year at month 10 of an over spend of £1.3m. Each Directorate's final outturn position was better than forecast.
7. The improved position is partly explained by an under spend at outturn of £895k on schools related budgets that was not identified at Month 10. However, the main reason for the up turn in performance appears to be service managers' reluctance to declare an under spend position for the year. The more transparent budget carry forward arrangements outlined later in this report are designed to encourage service managers to provide a more accurate assessment of spend for the year as part of routine budget monitoring procedures for the future. The revised process will ensure that budgets that are unspent at year-end for a genuine reason will be carried forward into the new financial year for continued support of corporate priorities.
8. The sudden improvement in financial performance also highlights the need to continue to develop and embed a culture for financial management where cash is treated as a corporate resource by all levels of management. 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.
9. The new approach to financial management the Cabinet and Corporate Management

Board is promoting provides the appropriate channels for service managers to identify additional resource needs in line with corporate priorities without the need for such a high degree of protectionism. The Council's external auditor will be looking for evidence that the new regime is 'embedded' as they review our 2006 self-assessment for the financial management theme within the Use of Resources assessment.

10. We therefore need to be able to demonstrate an improved level of accuracy in our budget monitoring arrangements for the future. Training is being provided in the coming months. There is little point in aiming for excellence in service delivery if we do not match that ambition for the areas covered by the Use of Resources assessment (financial reporting, financial management, financial standing, internal control and Value for Money). A council cannot be rated as excellent overall if it scores less than a 3 for Use of Resources.
11. The better than expected outturn position is however welcome 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 Medium Term Financial Strategy is currently in preparation for Cabinet to consider next month and will build on an improved opening resource position for 2006/07.
12. The overall under spend means that there is also scope to review the Council's current policy on the minimum acceptable level of general reserves and working balances (see paragraphs 46 to 48).
13. A summary of the key variations between outturn and budget for each Directorate is provided in the following paragraphs. Further detail is provided in Appendix A.

Adult & Community Services

14. This Directorate over spent compared to budget by £1.568m in 2005/06. The forecast outturn at month 10 was for an over spend of £3.345m. This represents an improvement in financial performance of some £1.8m.
15. The over spending on Adult Services was significantly better than the £1.5m predicted at £828k. The major areas of over spending were Learning Disability (£861k), Mental Health (£159k), Physical Disability (£330k) and Strategic Housing including homelessness (£456k).
16. Spending on services for Older People was lower than expected (£260k). Adult Services' Commissioning & Improvement was also under spent by (£430k). Spending on Community Services was below budget by some £430k.

Children & Young People's Services

17. This Directorate under spent compared to budget by £1.541m in 2005/06. This figure includes an under spend of £895k that was not forecast at Month 10. The forecast outturn at month 10 was for an under spend of £130k excluding schools budgets. This represents an improvement in financial performance of some £517k excluding schools budgets.
18. The net under spend for the Directorate of £1.541m includes £895k in respect of the standards fund and schools absence scheme which will be carried forward as any savings will not return to the Council.

19. There was an over spend on the Schools Music Service budget due to a change to billing in arrears (£320k) and Joint Agency Management SEN placements (£342k).
20. There were significant under spends on school transport (£953k) and SEN placements in independent schools (£452k).
21. The provisional level of school balances as at 31st March, 2006 is £8.653million, approximately £309,000 or 3.5% less than the total as at 31st March, 2005. Primary School Balances have reduced by £754,000 or 12.5%. Secondary school balances have increased by £532,000 or 21.2% and special school balances are £88,000 or 21.3% less.
22. A full report on the level of school balances at the end of the financial year 2005/06 will be considered at the next Schools Forum.

Corporate & Customer Services

23. This Directorate under spent compared to budget by £1.514m. The forecast outturn at month 10 was for an under spend of £219k. This represents an improvement in financial performance of some £1.3m.
24. The ICT trading budget was in deficit at year-end by £95k due to under recovery of Service Level Agreement income from schools and an over spend on decommissioning the Operations Room. This deficit will need to be recovered in 2006/07.
25. The ICT base budget was under spent by £903k for the year mainly due to delays in projects with links to the Herefordshire Connects programme. The other main under spends for this Directorate were in Policy & Performance Management (£147k), the Herefordshire Partnership (£142k) and Info in Herefordshire (£185k).

Environment

26. This Directorate under spent compared to budget by £847k. The forecast outturn at month 10 was for an under spend of £30k. This represents an improvement in financial performance of £817k.
27. The major areas of over spending included Highways Winter Maintenance (£353k), Street Cleansing (£230k) and Public Conveniences (£101k). One of the reasons for the recommended revision to the Council's policy on the minimum level of general reserves and working balances is to provide additional capacity in the event of a severe winter. The existing earmarked reserve for this purpose stands at just £108k and would be used first in the event of an unavoidable over spend.
28. Planning fee income was £421k higher than budgeted for the year. There was slippage in Planning Development grant of £209k and an under spend on Conservation services of £104k. There was also an under spend on street lighting of £280k. Car Park income was £178k higher than budgeted for the year.

Human Resources

29. This Service under spent compared to budget by £70k. The forecast outturn at month 10 was for a spend at budget.
30. The main reasons for the under spend were slippage in corporate training programmes and Health & Safety audit work and Employee Wellbeing days. A budget carry forward request has been approved for recommendation to Cabinet by CMB to complete this work in 2006/07 given its relevance to corporate priorities.

Resources

31. This Directorate under spent compared to budget by £135k. The forecast outturn at month 10 was for an under spend of £125k.
32. The Directorate managed to a bottom line position as Cabinet now require all Directorates to do. There were however significant variations within the Property Services budget. An over spend on Administrative Buildings (£561k) was more than offset by under spends on Industrial Estates (£400k) and Retail Properties (£182k).

Corporate Budgets

33. Corporate budgets showed an under spend of £1.167m at outturn. The forecast outturn at month 10 was for an under spend of £807k. This represents an improvement in financial performance of £360k.
34. The main reasons for the under spend compared to the original budget are as follows:
 - Lower than budgeted Housing Benefits expenditure which was not identified at Month 10 (£411k);
 - Local Authority Business Growth Incentive grant income not included in the original budget for the year (£602k);
 - Lower than budgeted spend on insurances (£143k);
 - No call on the Environment Agency levy contingency required (£134k); and
 - West Mercia Supplies dividend not included in the original budget (£262k).

DIRECTORATE BUDGET CARRY FORWARD PROPOSALS

35. The better than anticipated overall outturn position indicates that areas of the budget are under less pressure than others despite the views of service managers as expressed in routine budget monitoring reports.
36. With this in mind, Corporate Management Board, working as a team, sought to ensure that total budget carry forwards into 2006/07 did not exceed the £3.7m of Directorate under spends in 2005/06 outlined in the table in paragraph 5. This was necessary as the initial list of 'bids' for budget carry forward exceeded the total available by some £1.m.
37. CMB also sought to ensure that budget carry forward requests supported key corporate priorities. CMB therefore agreed the following set of principles as a basis of determining which bids to recommend to Cabinet for approval:
 - Allocating budget in 2006/07 for corporate priorities such as the Accommodation Strategy and the Edgar Street Grid project (£663k);
 - Carry forwards that have matching external funding;
 - Carry forwards that support corporate improvement priorities;
 - Carry forwards that support Directorate efficiency / improvement plans; and
 - Earmarking any remainder for Herefordshire Connects related priorities (£1.9m has already been set aside for this purpose).

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

	£000
Total under spend available for carry forward	3,720
Less:	
Schools related under spends that would otherwise be lost	-895
Corporate top-slice	-663
Chief Executive's Development Fund	-20
Chairman's Fund	-9

Total available for Directorate carry forwards	<u>£2,133</u>
CMB recommendations for Directorate carry forwards:£000	
Adult & Community Services	161
Children & Young People	414
Corporate & Customer Services	364
Environment	413
Human Resources	49
Resources	85
Remainder for topping up reserves/Herefordshire Connects	647

	<u>£2,133</u>

39. More detail on the carry forward bids and those recommended by CMB to Cabinet for approval can be found in Appendix B.

GENERAL RESERVES

40. Various items of expenditure were met from general reserves in 2005/06. These have been allowed for in the outturn position reported above. The approach to using general reserves has been consistent with decisions taken in previous years or outlined in the financial sections of the Integrated Performance Reports for the year.

41. The following table sets out the items of expenditure paid for from general reserves:

Item	£000	Comment
Claw back of Revenue Support Grant	315	Government adjustments from previous years
Herefordshire Connect initial costs	150	Consultancy support & accommodation
Job Evaluation implementation costs	125	Staffing & consultants costs
Funding repaid to ODPM	123	SRB grants in respect of 1998/99
Miscellaneous	234	Including funding for backfilling a Unison post, CPA costs, HR changes and the Accommodation Strategy
Change management in Children's Services	50	£200,000 remains available to spend in 2006/07.
TOTAL	997	

42. Having considered the outturn position for 2005/06 and CMB's budget carry forward proposals, it is now possible to update Cabinet on the level of general reserves as at 31st March 2006.
43. Cabinet will recall that the Director of Resources was forecasting that there would be approximately £6m in general reserves at the end of the 2005/06 financial year based on service managers' expectations on outturn for the year at that time and policy decisions on dealing with over spend positions. This figure excluded the unspent Invest to Save budget for the year of £1.9m which is now an earmarked reserve for the Herefordshire Connects programme. It also excluded a sum of £1.4m set aside for the Waste Management PFI project that this report recommends treating as an earmarked reserve for the future.
44. When the budget for 2005/06 was set, a contribution from the general reserve of £4.1m was necessary to balance the revenue account for the year. Because the outturn position for the year is much improved, a small contribution to the general reserve of £34k will be made instead.
45. The closing position for the year on the general reserve (excluding the budget carry forward bids of £3.7m) is now anticipated to be £10.4m. The main reason for this increase is the reduced level of over spending in Adult Services, Property Services and Strategic Housing. It is also helped by a surplus position on the Financing Transactions budget for the year of £1.8m.
46. The improved outturn position and hence the level of general reserves provides the opportunity to review the Council's policy on the minimum level of general reserves that the Director of Resources signalled in her budget report to Council in March was appropriate at the first available opportunity.

47. This particular policy has not been reviewed since 1998. At that time, it would have offered a suitable level of comfort in the event of an unforeseen contingency. A minimum level of £3m now only represents 2.5% of the net revenue budget for 2006/07 excluding schools. This is the range for the minimum level recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) is 2.5% to 5%. The Director of Resources advises Cabinet that the current policy is barely adequate given the financial risks outlined in her recent budget reports and those emerging in this outturn report such as dealing with the expenditure in excess of budget if there is a severe winter.
48. The Director of Resources therefore recommends that the opportunity is taken to revise the lower limit on general reserves upwards by £1.5m to £4.5m. This would provide a general reserve that represented 3.75% of net revenue spending excluding schools. This is still not excessive in terms of CIPFA guidance.

RESERVES

49. The Director of Resources requests that Cabinet approve the creation of the following new earmarked reserves in the accounts:

Title	£000	Reason
Waste Management	1,366	Previously this amount was shown under General Reserves. The amount has been built up in recent years to provide funding flexibility following the renegotiation of the Waste Management Contract.
Herefordshire Connects	1,928	A reserve has been created from the remaining 2005/06 Invest to Save Budget in order to fund initial Herefordshire Connects expenditure.
Wye AONB	93	Amount held by the Council as the Accountable Body for Wye AONB initiatives.
LATS	19	This reserve has been set up as part of the new arrangements for the Landfill Allowances Trading Scheme
College Hill Community Centre	180	Money received from an insurance claim following the burning down and demolishing of the old building. To be used to fund a new Community Centre.
Elections	89	A new reserve is to be set up to help facilitate the Election Budget over the four-year period.
Members Services	30	To fund increasing Members' ICT costs arising from increased use and the forthcoming elections.
School Energy Audit	50	An "invest to save " commitment made to schools in the light of the increased energy costs.

Risk Management

The Council is required to publish end of year BVPI outturns by 30th June and to ensure the closure of accounts within statutory deadlines. Failure to do so carries a reputational 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.