

General Fund - Provisional Revenue Outturn 2006/07

Summary

1. This report sets out the projected 2006/07 outturn position on the General Fund Revenue Account, the Housing Revenue Account (HRA), the Collection Fund and the Public Sector Agreements (PSAs) for 2006/07. In line with this information it asks the Executive to consider requests for underspent project budgets to be carried forward and resultant transfers to reserves.
2. Traditionally this report has been used to provide the Executive with a detailed outturn report for all directorate and corporate budgets. However, in many instances this approach merely duplicates information which has already been reported to Executive Members via the EMAP process. Alongside this as part of the CPA process the Audit Commission is advising all council's that their monitoring systems should aim to focus attention on key issues which have arisen. As a result this report adopts a new model which whilst it summarises overall performance only provides detailed information on those areas which are deemed to be significant due to the reasons for their occurrence or the overall size of the variance.
3. It should be noted that responsibility for a number of corporate budget areas is reserved to the Executive and, as such, areas are reported at a more detailed level.
4. All general fund portfolio areas except Children's Services have managed to outturn within their budget level of funding and even in that instance the net overspend for LCCS's General Fund services is just £12k. Overall these areas have combined to provide an underspend of £2.44m. In addition corporate budget areas have also contributed a £1.37m underspend providing an overall underspend of £3.81m.
5. To achieve these objectives the report focuses on the following issues:
 - a. the provisional outturn for the General Fund, which comprises departmental budgets and centrally held budgets (paragraphs 16 to 54) and the requests to carry budgets forward into 2007/08 (paragraphs 55 to 58);
 - b. key issues identified as part of the outturn process;
 - c. outturn details for the Housing Revenue Account and other non-general fund budget areas (paragraphs 29 to 31 and 46 to 47);
 - d. the outturn position on the Collection Fund (paragraphs 59 to 60);

- e. an update on the achievements of efficiency savings/additional income incorporated into the 2006/07 budget (paragraph 61);
 - f. the outturn position on the use of Reserves and Balances (paragraphs 62 to 66);
 - g. the position of the Public Sector Agreements (paragraphs 71 to 72);
 - h. provides and update on the future issue of PFI Waste (paragraphs 73 to 79)
6. As a result of the action taken within directorates to manage the overspends identified in earlier monitoring reports there has been an improvement of £2.604m from the last monitor. As shown below this will enable £2.290m to be transferred into the general fund reserve.

	<u>£'m</u>
Portfolio Underspends	2.585
Portfolio Overspends	-0.142
Corporate Underspends	1.366
Total	3.809
Carry Forward Requests	-1.519
Net Underspend Transferred to Reserves	2.290

7. The level of total reserves at 31 March 2007 incorporating these underspends but before allowing for agreed carry forwards is £9.637m. After allowing for the use of balances already approved as part of the 2007/08 budget process (£1.312m), the carry forward requests (£1.519m), requests for supplementary estimates in 2007/08 (£223k), and assumed use of Neighbourhood Services trading account reserves (£0.109m), the available level of reserves at 31 March 2008 is forecast to reduce to £7.396m. The minimum level of recommended reserves for 2006/07 was £4.95m (£5.2m in 2007/08). The position on reserves and balances for 2006/07 is further discussed in paragraphs 62 to 66.
8. While the overall reserves position and outturn have improved due to a number of one-off occurrences this masks the true financial position of the authority. In overall terms the council faces a number of on-going budget pressures and in future budget rounds will need to identify appropriate actions to control and mitigate them. The use of reserves to plug such gaps is unsustainable as it merely offsets problems to the future and can lead to a continuing deterioration in the council's underlying financial position. The council's policy of only using one-off resources to meet one-off spending pressures is designed to explicitly negate such a risk.
9. In addition to the overall resilience of the council's budget the report highlights a number of key concerns for members to consider:
- a. The scale of underspends within the Resources Directorate and on the Corporate Budgets;
 - b. The scale of pressures facing social care services provided by HASS and

LCCS;

- c. Whether improvements should be made to the quality of financial monitoring within the authority.
10. The other main messages in the report are as follows:
- a. Children's Services reported an underspend against the Dedicated Schools Grant (DSG) of £0.598m which is required to be held in a reserve to spend on schools' in future years.
 - b. The HRA working balance is provisionally £5.990m of which £0.563m is required as a carry forward to 2007/08 to fund decent home elements of the capital programme and £0.039m is requested to be carried forward.
 - c. Neighbourhood Services are reporting a gross surplus of £0.139m against a year end deficit budget of £0.017m on their trading account (this represents a £156k underspend). It is proposed to transfer the £139k to the trading account reserve to assist with future pressures.
 - d. The collection of in-year debt on both council tax and national non-domestic rates (NNDR) has improved from those experienced during 2005/06 and the year-end surplus on the Collection Fund is £1,100k, which is £40k more than that included in the 2007/08 budget. This will release £32k to the council as part of the 2008/09 budget setting process.
 - e. In examining the apparent movements between the second monitor and this report it has become clear that the council needs to make improvements in its financial management arrangements. During 2007/08 work will need to be undertaken to produced enhanced management awareness of the underlying financial position through improvements to budget forecasting and the identification of slippage.

Background

11. The council requires departments to maintain expenditure within their overall budget allocation. Where an unpredictable event occurs that is not manageable within these budgets, a report should be presented to the Executive seeking additional funding either through an allocation from the contingency fund or from reserves. In line with this requirement all departments have taken positive action to ensure that the tightest financial controls are in place to manage spending pressures within their allocated resources.
12. The outturn is based on the latest balances after the closedown of all the Council's revenue and capital accounts and the finalisation of the year end accounting exercise, which takes all known outstanding liabilities and income due to the Council into consideration. The Executive should note that there is the possibility of further adjustments following the Audit Commission's formal review of the accounts during August and September.
13. The Executive should also note that all the provisional outturn reports have been prepared prior to the implementation of year-end pension adjustments in order to comply with accounting standard FRS17. This has been done in order to keep consistency with figures reported in monitoring reports

throughout the year. The FRS17 adjustments will be included in the figures reported within the Statement of Accounts which is elsewhere on this agenda.

14. There has been a continued improvement in the Council's position since the second monitoring report projected an underspend of £0.229m that in itself showed a significant improvement on the first monitor which gave a projected overspend of £2.4m. There are many reasons for this and these are set out in the body of this report and in the earlier detailed reports submitted to EMAPs.
15. The financial year end is an artificial cut off point, essential for control and reporting purposes. However, the existence of an underspend at that particular date does not mean that the resources are no longer required to complete ongoing projects. Through the carry forward of such funding into the new financial year on-going projects can be better managed especially through the removal of perverse incentives for budget holders to spend outstanding budgets before the year-end. The total amount recommended for carry forward is £1.519m. The details of these proposals are set out in full in Annex 4.

The General Fund

16. The General Fund net expenditure budget for 2006/07 set by Council on 1st March 2006 was £99.058m (£97.769m before the use of balances and reserves). Following the in year adjustments detailed at Annex 1 this budget increased to £100.479m.
17. The summary outturn for the General Fund is shown in Table 1. A comparison of the movement in the projected under and overspends from the last monitoring report is set out in Annex 2. Information on the components of the variations can be obtained by reading the individual EMAP reports. As central budgets are not reported to an EMAP an analysis of the key items which comprise current under and overspends for central services is included at Annex 3.

Portfolio	Currently Approved Budget			Provisional Out-turn £000	Variance Out-turn to Net Budget	
	Gross Exp. £000	Income £000	Net Budget £000		£000	%
Children's Services	35,263	10,190	25,073	25,215	+142	0.6
Leisure and Culture	14,102	4,274	9,828	9,698	-130	1.3
Economic Development	5,916	3,644	2,272	2,262	-10	0.4
City Strategy	33,425	19,560	13,865	13,645	-220	1.6
Neighbourhood Services	19,241	5,369	13,872	13,504	-368	2.7
Chief Executive's Department	9,137	3,871	5,266	5,035	-231	4.4
Resources	60,123	55,200	4,923	3,642	-1,281	26.0
Housing General Fund	13,840	12,323	1,517	1,377	-140	9.2
Adult Social Services	56,560	23,831	32,729	32,524	-205	0.6
Total of Portfolios	247,607	138,262	109,345	106,902	-2,443	2.2
Centrally Held Budgets						
Asset Management	(13,094)	-	(13,094)	(13,094)	-	-
Contribution from Cap Finance Account	-	5,773	(5,773)	(5,773)	-	-
Treasury Management	9,988	3,249	6,739	6,278	-461	6.8
Other Central Budgets	3,284	-	3,284	2,357	-927	28.2
General Contingency	-	22	(22)	-	+22	-
Non DSG General Fund Total	247,785	147,306	100,479	96,670	-3,809	3.8
Children's Services (DSG)	111,839	32,041	79,798	79,200	-598	0.7
General Fund Total	359,624	179,347	180,277	175,870	-4,407	4.5

Table 1 – Summary Outturn

18. All general fund portfolio areas except Children's Services have managed to outturn within their budget level of funding. Overall these areas have combined to provide a £2.44m underspend. In addition corporate budget areas have also underspent by £1.37m producing a gross underspend on the non-dsg general fund of £3.81m. Children's Services has overspent by £142k, or by 0.4% against gross general fund turnover of £35,263k, although this excludes the Dedicated Schools Grant element of the budget that underspent by £0.598m.
19. As explained earlier this report does not look to provide a full detail of all services but instead focuses on those areas where significant variances have occurred. Members may wish to focus their attention on the following areas and issues:
- a. Significant Underspends
- Following the repayment of £0.589m of outstanding venture fund loans Resources have underspent by £1.281m (26.8%). This is largely due to slippage on major IT projects, specifically the replacement FMS and social care systems, but also because of an improvement in the level of Housing Benefit overpayments and the recovery of those overpayments. After carry forward requests of £0.564m, there is a net underspend of £0.717m to contribute to reserves. More details are provided in paragraphs 36 to 40.
 - Central budgets have underspent by a total of £1.387m comprising Treasury Management £0.461m (6.8%) and other Central Budgets £0.927m (28.2%). Full details of the position on central budgets is

reported at paragraphs 48 to 54.

- b. While the overall reserves position and outturn have improved due to a number of one-off occurrences this masks the true financial position of the authority. In overall terms the council faces a number of on-going budget pressures and in future budget rounds will need to identify appropriate actions to control and mitigate them. Particular concern attention may wish to be directed at the resilience of budgets in:
- Housing and Adult Social Services.
 - Leisure, Culture and Childrens Services.
- c. The overall quality of monitoring, especially in relation to the variations between the second monitor and this report.

LCCS

20. LCCS has outturned with a surplus £586k, an improvement since the last monitor of £236k. Within this there is a deficit of £142k on childrens services general fund budgets, supported by underspends on DSG, and Leisure and Culture of £598k and £130k respectively. The basis of this was reported to the Childrens Services EMAP on the 12/06/07 and, Leisure and Culture EMAP on the 05/06/07¹. As a result, in terms of the general fund the position is essentially balanced with a net overspend of just £12k. However this position masks particular pressures, most notably in respect of the position within Children and Families where, since the second monitor additional costs of £164k have been identified mainly due to an increase in the number of looked after children requiring fostering support.
21. Members need to be clear about the significance of the overspend in Children's Services. Most of the pressure relates to the increase in the number of looked after children requiring fostering support and Home to School Transport. Both of these service areas are demand led and expenditure is likely to be recurring in 2007/08 with pressures already identified of £280k. Work is continuing to look at solutions for containing these costs within the existing resources; to quantify the extent of these on-going pressures; and to identify potential mitigatory action to cope with them within resources allocated to the directorate for 2007/08. The outcome of such work will be reported as part of the first 2007/08 monitor cycle
22. The majority of the Directorate's underspend has occurred in areas funded by the dedicated schools grant which has underspent by £598k (an increase of £231k from the second monitor). Under the regulatory framework attached to this grant this underspend will need to be recycled into schools as part of their 2007/08 funding. The major changes from the second monitoring report are set out briefly below:

¹ It should be noted that the Leisure and Culture underspends are the result of a number of events that due to their individual scale are not dealt with in this report. Should members wish to examine this area then they will need to refer back to the EMAP paper from the 5 June 2007.

	£000
<u>Underspend Areas</u>	
a) Underspend on the Schools Specific Contingency budget mainly in relation to provision for the West of York Review.	(175)
b) An increase in the actual amount of DSG available following the completion of Children's Services Grant adjustments	(98)
c) An increase in the underspend on Out of City Placements of £95k but offset by increased costs on Inclusion Support Packages of £48k.	(47)
<u>Overspend Areas</u>	
d) An increase of £60k in the net cost of support required for statemented children from School Based Area Teachers and Learning Support Assistants.	+60
e) Child & Adolescent Mental Health Services grant of £48k carried forward from 2005/06 in error has had to be repaid.	+48

City Strategy

23. City Strategy has outturned with an underspend of £230k (Economic Development £10k, Planning and Transport £220k). There is no further discussion of the Economic Development position in this report other than to note the request for a carry forward of £7k to fund the slippage of the Without Walls Local Area Agreement document and web site update.
24. Following a £119k transfer to Economic Development (approved at the previous monitor) the rest of City Strategy has underspent by £220k. As this underspend has been achieved despite shortfalls in key income the outturn position masks what may be significant underlying problems in the directorate. Key variances which should be noted by the Executive are:

	£000
<u>Underspend Areas</u>	
a) Staff Based Savings	(197)
b) Surplus Car Parking Income	(175)
c) Additional Planning Fees	(155)
d) Highways Maintenance	(128)
e) Savings on Car Parking Expenditure	(103)
f) Underspend on Public Enquiries	(79)
<u>Overspending Areas</u>	
g) Shortfall on Building Control and Land Charge Income	137
h) Shortfall on Penalty Charge Notices	118
i) Write back of unrecoverable ascot meeting debt	116
j) Capital Programme Fees and Section 38 Developer Income	102

25. It is important to consider whether any variances highlighted are of a recurring nature that will affect 2007/08. The surplus of parking income and the shortfall of Land Charges income have been addressed in the 2007/08 budget. The overspend on street lighting energy is being addressed by entering into a new maintenance contract. The downturn in building control

income may continue as interest rates continue to increase. The surplus in planning applications will also require detailed monitoring to look at changes in volume as well as significant fees from major developments within the city. In addition the amount of Planning Delivery Grant has not been determined for 2007/08 and there are national proposals to increase the level of planning fees. Both these factors may have an adverse impact on income streams.

26. From the £220k underspend there are four carry forward requests totalling £180k. These are detailed at Annex 4.

Neighbourhood Services

27. The Neighbourhood Services budgets are split in to Trading and Non Trading activities which underspent by £156k and £368k respectively. This is a significant change from the last monitor when the projected position was a combined overspend of £57k.
28. On the Non-Traded Services there have been two significant underspends and one significant overspend. These are:
- a) Neighbourhood Management has underspent by £109k including an £82k underspend on ward committee budgets, of which £55k is committed to local schemes.
 - b) An underspend of £109k has also occurred on Waste Management, Refuse and Recycling caused by the combined affects of a £68k saving on kerbside recycling where landfill tax savings outweighed the costs of collection; unbudgeted grant income of £82k in relation to the WEEE directive; and savings of £29k in the waste strategy unit because of delays to a number of initiatives. These underspends were, however, offset by a £70k overspend on security at the Hazel Court Household Waste site.
 - c) In addition to the above a shortfall in income from recharges for air quality assessment work done for City Strategy, plus a one off charge relating to contaminated land sampling and legal costs relating to noise abatement measures at Elvington Airfield led Environmental Health and Trading Standards to overspend by £39k.
29. The traded services elements of the directorate had a budgeted turnover of £24.7m, with a target surplus of £189k. Since the budget was set there have been a number of changes to the underlying cost base and members have previously agreed that the target surplus be replaced with a contribution from general fund services (as the saving was being made within general fund services) of £17k.
30. At the second monitor report Neighbourhood Services were reporting a small trading loss, but also reported that expenditure was being closely monitored and external work was being sought. The provisional outturn position is that the service will have made a £139k surplus on its activities without taking into account the transfer from general fund balances.
31. Early reviews of the 2007/08 budget position have identified that the traded services may face additional one-off cost pressures relating to some final health and safety works at the eco-depot and pressures related to functional

areas. On this basis it is considered prudent for the Commercial Services reserve to be increased from its current £300k to £439k. If additional cost pressures in 2007/08 are avoided then this reserve could be suitably reduced in future years.

32. From the underspend of £524k, there were seven carry forward requests totalling £182k all of which relate to non-traded areas. Full details are detailed Annex 4.

Chief Executives Department

33. As part of its 2006/07 budget the directorate was required to identify £150k savings from a departmental restructure. This resulted in a number of appointments being delayed and pressure on managers to minimise spending. As a result the Directorate underspent by £231k. The main variances are detailed below:

	£000
a) Human Resources due to slippage on the job evaluation project and savings in a number of other areas.	(104)
b) The Civic, Democratic & Legal Services underspend has also come from a number of areas including £68k of staff related savings.	(103)
c) Director of People & Improvement budget has overspent of +£29k due to the earlier than anticipated appointment of the new Director and Personal Assistant.	+29

34. There are two significant financial pressures that have arisen since the 2007/08 budget was agreed that members are also being asked to consider. These are supplementary estimate requests and, as such, are reported at paragraphs 68 to 70.
35. In addition to these two requests for funding in 2007/08 the EMAP identified five carry forward requests for projects that have slipped, amounting to £52k. These are detailed at Annex 4.

Resources

36. At £1.281m Resources has the largest underspend of any directorate and one which is £1.21m greater than that reported at the second monitor. This scale of variation between previous forecasts and outturn is a cause for concern. It is important to note, however, that this underspend is substantially due to a number of projects and initiatives resourced for 2006/07 which have either slipped or have been deferred into 2007/08 and so does not represent an on-going level of additional funds available for future years. If they are to be completed the funding of £564k will have to be carried forward in to 2007/08. The carry forward request relates primarily to four key projects, £256k to finalise Easy Stage 1, £153k for the replacement FMS project, £60k for the Social Care Replacement Programme and £50k for the income collection project. Changes to the accounting treatment of expenditure on property sales has meant that there is an underlying pressure

of £194k. These changes have been partially offset by the recovery of a bad debt but because the pressure is a result of a change in accounting policy it is normal that a supplementary estimate is provided. The proposed adjustment involves transferring £135k from reserves to cover this part of the overspend.

37. Key variances against budget include:

- a. The £1,032k underspend on IT&T budgets relates to slippage on the FMS replacement, Social Care system and Easy projects. In parallel with the Easy@york programme, the department has worked on a total of 60 development projects during the year including the replacement of FMS and ISIS systems. 42 projects came from the annual ITT Development Plan process and 18 were introduced during the year to meet new business or legislative priorities. The department has successfully completed 75% of the development projects that were planned for delivery during 2006/07, leaving 15 that are currently work in progress, of these;
 - Five are due to insufficient resource availability from the business departments;
 - Four are behind schedule because of procurement issues;
 - Three have not progressed because the requirements changed within the business or are being re-assessed;
 - Two are running late because of technical issues;
 - One project where the proposed solution proved unsuitable for the requirement .
- b. Public Services has underspent by £364k due to a reduction in the number of Housing Benefit overpayments and an improvement in the collection of overpayments which has led to a reduction in the provision for bad debts. There has also been an improvement in the Council Tax benefits position.
- c. The £261k underspend on Financial Services is primarily due to slippage on the FMS replacement which will be implemented in 2008/09 (£153k). This underspend, which relates to extant project management costs, is subject to a carry forward request. The balance of the underspend relates mainly to in year savings on staffing budgets.
- d. The majority of the £70k overspend on Audit and Risk Management is due to an unachievable procurement saving target which have since been removed as part of the 2007/08 budget.
- e. While the Property Services trading account has a small net underspend of £7k this position masks an overspend of £194k on the costs of maintaining surplus assets prior to sale. To cover these additional costs the service has secured additional income from the commercial rents and capital programme fees of £65k and, due to building disposals, been able to reduce its internal bad debt provision by £92k.

38. As a result of its financial position the directorate took the opportunity to repay its outstanding venture fund loans totalling £589k which related to SX3, Procurement and work undertaken to improve Hospital Fields Road

workshops. If this repayment had not been taken the directorates gross underspend would have been £1.87m.

39. The overall scale of the directorate's underspend and the change from the second monitor are both a cause for concern. Most notably there appear to have been problems in the identification, monitoring and reportage of slippage on key projects. This is an issue which the council as a whole will need to address as part of future monitoring arrangements.
40. The directorates carry forward requests are detailed at Annex 4.

Housing and Adult Social Services

41. In total HASS have underspent by £345k an improvement of £278k from the projected position in the second monitor. As the Housing General Fund element of the overall underspend was £140k, a £73k improvement since monitor two this is not dealt with further in this report other than to ask the Executive to note that the service has made requests for a £15k carry forwards which is detailed at Annex 4,
42. Throughout 2006/07 members have been briefed on the financial problems facing the council's adult social services functions and it is worth remembering that these were problems which had themselves followed on from the portfolio's £793k overspend in 2005/06. At the first monitor members were informed of a projected overspend of £1.7m and, alongside internal saving proposals totalling £694k, agreed actions to transfer £936k into this area, £400k of which represented on-going budgetary provision. This investment, alongside management action, has enabled the directorate to deliver a balanced year end outturn.
43. The breakdown of the underspends / variances are as follows:

	£000
Corporate Services (<i>£435k underspend</i>)	
<u>Underspend Areas</u>	
a) Expenditure deferred to offset budget pressures across the department	(395)
Adult Services (<i>£156k overspend</i>)	
<u>Underspend Areas</u>	
b) Internal Home Care Service	(330)
c) Residential & Nursing Care – Under spend on care costs of £490k partially offset by underachievement of income (£190k) due to lower than anticipated admissions and also reduction in number of Transitional care beds contracted for.	(286)
d) Elderly Persons' Homes – Overspend of £147 on staffing due to cover for staff sickness and increased staffing levels in order to comply with CSCI standards, offset by £310 – additional income from customers.	(163)
e) Pay – various under spends over both provider and purchaser teams	(132)

f)	due to vacancies.	
	<u>Overspending Areas</u>	
g)	Community Support Budget	445
h)	Direct Payments	301
i)	Warden Call Service – Overspend on pay (111k) due to increased demand for the service, partially offset by increased income (£48k). However, £135 withdrawal of Supporting People funding has also affected this service’s budget position.	215

Mental Health Services (156k underspend)

	<u>Underspend Areas</u>	
j)	MH staffing – difficulty throughout the year in recruiting to certain posts such as the ASW post resulting in significant under spend.	(110)

Learning Disabilities Services (239k overspend)

	<u>Overspend Areas</u>	
k)	Community Support Budget - £389K overspend on expenditure partially off set by over achievement of customer and PCT income (£77k). Overspend is continuation of previous year’s position and will continue into next year – this services was outside the scope of the Home Care Services restructure	312
l)	Cost of transporting Clients – continuation of previous year’s pressures	114

44. The department continues to face significant financial challenges going in to 2007/08. These are currently being analysed and will be reported in future monitoring reports.

45. There were two requests for carry forwards on schemes totalling £27k.

Housing Revenue Account

46. HASS is also responsible for managing the council’s housing stock financing for which is ring fenced within the HRA.

47. The provisional outturn on the HRA is a working balance of £5,990k at 31 March 2007, compared to the projection reported in the last monitor of £4,835k. The reasons for this increase were presented to the EMAP meeting. Of the working balance, £563k will be required to fund the re-phased works on the capital programme in 2007/08 and £39k will be required to fund the carry forward requests leaving a net surplus of £5,388k on the HRA. It is recommended that this surplus remains on the HRA and be used to fund HRA revenue expenditure or as a revenue contribution to capital expenditure (£4.5m between 2007/08 and 2010/11) to meet the decent homes standard in line with the approved HRA business plan.

Centrally Held Budgets

48. There are a number of budgets which are held centrally and reported direct to the Executive.

Treasury Management (Outturn Projection -£460k, movement from second monitor projection -£275k)

49. Treasury Management has spent £6,280k against the revised budget of £6,740k, an underspend of £461k. The key variances are detailed below:
- An increase in average balances of over £2.5m has resulted in an £89k underspend.
 - Increases in interest rates have contributed a £70k underspend. Interest rates have risen three times during the year from 4.5% to finish the year at 5.25% against advice from the council's professional advisors when the budget was set that rates would remain constant or fall slightly.
 - The higher than anticipated cash balances and unfavourable long term borrowing rates has meant that £7m of planned £17m borrowing has been delayed, resulting in an underspend against the budget of £120k.
 - IT Leasing and Prudential Borrowing (£143k underspend). Prior to the introduction of the prudential code in April 2004, the Council leased all of its IT equipment because of tight government rules that restricted borrowing. The prudential code has meant a relaxation of these rules and has enable the Council to choose whether to use operating leases or borrowing as a method of financing assets and currently, for IT equipment, borrowing is the most cost effective route. A further one off benefit also accrues from borrowing in that debt financing costs are made in arrears rather than in advance, as is the case with leasing resulting in a one off saving of £143k.

Other Central Budgets (Outturn Projection -£927k, movement from second monitor projection -£927k)

50. These budgets, detailed in Annex 3, cover a variety of centrally held funding. Members were advised in the second monitor that it was likely that this area would break-even, but that this would depend upon demands from other service areas for corporately held resources. These have not materialised and as a result the provisional outturn is showing an underspend of £927k. Key elements of this underspend are shown below.

	£000
<u>Underspend Areas</u>	
a) Specific Resources for Job Evaluation	-481
b) Capital Programme Running Costs	-301
c) Superannuation BVACOP Adjustments	-123
d) Prices Provision	-115
<u>Overspending Areas</u>	
e) Redundancy Payments	179
f) Corporate Contingency	22

51. The main causes for the change are that the money set aside for project costs on job evaluation (£481k) will not be incurred until 2007/08 and it has not been necessary to utilise provisions set aside for running costs of capital schemes and prices (including fuel prices) of £415k. In addition staffing underspends across the Council also mean that there is a £123k saving on the corporate superannuation budget. Other minor variations have resulted in savings totalling £86k, including £25k on compensatory budgetary adjustments provision for sold properties due to the delay in sales and £30k additional income received from the government through the Local Area Business Growth Initiative scheme. The budget for the job evaluation project will be needed in 2007/08 and this is therefore part of the carry forward request.
52. The total expenditure on pensions and redundancy payments is £1,233k, an overspend of £179k. However, of this spend only £454k represents one off costs with £881k resulting in recurring costs in future years.
53. Members were promised an update in all monitoring reports regarding the receipt of NNDR refunds following successful appeals. The second monitor reported the expected net cumulative transfer to reserves in the year, after deducting all fees due to the Council's Agents, would be £365k. The outturn position is a transfer of £714k, and this is included in Annex 5.
54. As Table five summarises in terms of the general contingency there were pressures of almost £1.8m highlighted during the budget process, against which £800k was set aside. Departments have generally been successful in their attempts to contain pressures within their resource allocation. Overall there has been a small over allocation of the contingency. Of the £821.5k released £642.5k is recurring in to 2007/08.

Table 5 – General Contingency

Amount Included in Budget Papers £000	Portfolio Area		Recurring (R) One-off (N)	Budget Approved £000	Unused Budget Returned £000	Budget Total £000	Recurring Budget Issued £000
		Original Allocation				800.0	
177.0	LCCS	Loss of Safeguarding Children's Grant (Exec 10/10/06)	R	79.0		-79.0	79.0
0		In year Budget Balancing	N	179.0		-179.0	-
200.0	Exec	Funding Redundancy and Early Retirement Costs (Exec 10/10/06) - additional costs in year have been identified as one-off and are being met by a one off saving elsewhere in central budgets.	R	100.0		-100.0	100.0
58.6	Corp Servs	Additional Health and Safety Resource (Part Year) (Exec 24/10/06)	R	8.5		-8.5	8.5
400.0	HASS	Demand and Complexity (Exec 5/12/06)	R	400.0		-400.0	400.0
44.0		Shortfall in Crematorium Income (Exec 16/01/07)	R	55.0		-55.0	55.0
899.0		Other Items identified during budget setting but not required					
		Balance Remaining				-21.5	642.5
1,778.6		Total Approved		821.5			
		Balance Remaining on Contingency				-21.5	
		Cost of Recurring Budgets Released					642.5

Carry Forward Requests

55. A major reason for the underspend shown in table one is the value of the projects for which budgetary provision existed in 2006/07, but where the projects could not be completed. The EMAP's have made requests for these budgets to be carried forward into 2007/08, and full details of the requests from individual EMAPs for approval by the Executive, together with the bid for corporate budgets, are shown in Annex 4 (total £1,519k). Table 4 summarises the requests and compares them to the under/over spends in the provisional outturn.

	Provisional Over/Under Spend £000	Bids to Carry Budgets Forward £000	Variation £000
<u>Portfolio</u>			
Children's Services	+142	-	+142
Leisure and Culture	-130	-	-130
Economic Development	-10	+7	-3
City Strategy	-220	+180	-40
Neighbourhood Services	-368	+193	-175
Chief Executive's Department	-231	+52	-179
Resources	-1,281	+564	-717
Housing	-140	+15	-125
Adult Social Services	-205	+27	-178
Total of Portfolios	(2,443)	1,038	(1,405)
<u>Centrally Held Budgets</u>			
Asset Management	-	-	-
Contribution from Cap Finance Account	-	-	-
Treasury Management	(461)	-	(461)
Other Central Budgets	(927)	+481	(446)
General Contingency	22	-	22
General Fund Total	(3,809)	1,519	(2,290)

Table 4 – Carry Forward Requests

56. It can be seen from the preceding table that the total of the requests to carry budgets forward represent approximately 30% of the total general fund underspend in the year. On a departmental basis, the requests to carry forward budget are all less than the departmental underspend in the year, which is one of the criteria for carry forward. The other criteria are:
- Specific approved projects.
 - Not completed in year.
 - The projects are still required by the Council
57. It should be remembered that all carry forward sums will become one-off budgets for 2007/08. Approving all the carry forward requests will mean that the revised net increase in general fund balances will be £2,290k.
58. In addition to those General Fund requests shown above the HRA have also requested that £39k be carried forward into 2007/08. Again, details of this

request are shown in Annex 4.

Collection Fund

59. The Collection Fund is a statutory account and receives all Council Tax and National Non-Domestic Rate (NNDR) income, together with any residual income from pursuing remaining arrears from the community charge. There is a legal requirement that an estimate of the year-end position is made during January to enable the council taxes of the billing authority (CYC) and the major precepting authorities (North Yorkshire Police and Fire Authorities) to be set including either a reduction (if there is calculated to be a surplus available) or an increase (if there is a deficit to recover) for the projection. The projection made in January 2007 was that there would be a £1,060k surplus at 31 March 2007, of which £850k was the Council's share. This sum was used when setting the 2007/08 council tax level .
60. The provisional outturn gives a surplus of £1,100k and this reflects the increased level of collection (96.8% from 96.1% in 2005/06). The increased year-end surplus means that there will be £32k (CYC's share of the additional surplus) available for distribution to York Council Tax payers in 2008/09, or £0.49 per band D.

Update on the Achievements of Efficiency Savings/Additional Income/Growth Items Incorporated into the 2006/07 Budget

61. The 2006/07 budget included £7,144k of budget/efficiency savings and £4,363k for growth. With few exceptions they were all achieved. Where there were problems these were highlighted in relevant EMAP reports. Outturns on these growth and saving items are fully reflected in the outturn figures within this report.

Reserves and Balances

62. Members are reminded that balances should only be used to fund non-recurring, that is one-off, expenditure. Using balances to fund recurring expenditure items creates funding problems in future years, as the resources no longer exist, but the expenditure will. Also, any further large approvals against these balances will reduce the scope for Members to utilise reserves to fund overspends or new investment in future years.
63. The available balance at the start of 2006/07 on the General Fund reserve amounted to £5,347k. Members have agreed use of balances to fund several large and non-recurring items of expenditure amounting to £2,599k. In addition Members approved the transfer into the general fund balance from Leisure Services earmarked reserves of £59k and the transfer to reserves of unbudgeted one-off income from the additional refunds on NNDR totalling £714k. An in year, one off, dividend payment from Yorwaste of £480k has also been received and posted to reserves. Details of all these are shown at Annex 5.
64. The balance on the general fund reserve, before the year-end transfer is £3,873k. If the recommendations in this report are approved, there will be a

transfer into this reserve of £3,809k of which £1,519k will be earmarked for carry forward requests). This will result in a projected general fund balance at 31 March 2008 of £6,522k (£5,003k after carry forwards are taken into account).

65. There are other revenue reserves, which are not included in the General Fund balance but which, as they are available to support general expenditure, are included in the reserves comparison purposes for the CPA calculation. These comprise the Commercial Services reserve (which is recommended to be increased to £439k) and the Venture Fund (provisional outturn £1,611k, and detailed in Annex 6). These additional balances are also included on Annex 5. The total of all the reserves is projected to be £7,267k at 31 March 2008. This compares to a recommended minimum level of reserves for 2007/08 of £5.2m.
66. Annex 5 provides projections of the council's reserves position until 2009/10. This shows that based on current information the overall reserves at 31 March 2010 will be £5.75m, £225k above the estimated minimum reserve threshold for that year of £5.521m. It should be noted that this assumes that no significant one-off events (such as flooding) have to be dealt with in this period. Should such an event occur then the level of reserves available would be reduced from that shown. A summary of these projections is shown below:

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
General Reserve	7,682	5,003	4,391	4,547
Commercial Services Reserve	439	330	330	330
Venture Fund	1,611	1,934	1,258	869
Total	9,732	7,267	5,979	5,746
Minimum Reserve Threshold	4,950	5,201	5,361	5,521
Headroom in Reserves	4,782	2,066	618	225

Virement Requests

67. The Council's financial regulations require that any virements between service plan heads of more than £100k are agreed by the Executive as part of the budget monitoring report. There are no requests in this outturn report.

Supplementary Estimate Requests

68. The Council's financial regulations require that any requests for supplementary estimates are considered by the Executive as part of the budget monitoring report. Three such requests have been made in relation to the 2007/08 budgets, two for the Chief Executive's Department and one for Neighbourhood Services.
69. Chief Executive
- a. A report was taken to Urgency Committee (23rd May 2007) detailing the need to recruit a new Chief Executive and the costs associated with the

appointment process and revised grading. In addition funding will also be required to meet the revised saving salary and recruitment costs. The ongoing costs associated with these changes will be dealt with in the 2008/09 budget process however the Executive is asked to agree to fund the costs for 2007/08 (likely to be in the region of £76k) from the underspends transferred into the general reserve.

b. In addition fees for the Council's Corporate Comprehensive Performance Assessment inspection in January / February 2008 will be £124k rather than the £77k included in the 2007/08 budget. Again the Executive are being asked to meet such costs from the underspends transferred into the general reserve.

70. Neighbourhood Services have also requested that up to £100k be set aside to assist with funding security costs at Household Waste Sites. Any such allocation for 2007/08 would be a one-off and proposals to address on-going issues will need to be dealt with as part of the 2008/09 budget process.

Second Public Service Agreement (PSA)

71. The Council received government funding of £933k for 12 PSA targets under the second agreement. In addition the Executive agreed that a further sum of £1,095k would be made available from the Venture Fund to enable the schemes to meet their 'stretch' targets. The schemes are to be run over two years, and Officers have implemented proposals that would best achieve the targets set. Table 6 shows the individual targets, budgets, cumulative spend, the % of the stretch target achieved and an estimate of the value of the reward grant to be received at the end of the scheme.

Target	Ref	Approved Budget £000	Cumulative Spend £000	Projection	
				% Reward Achieved %	Value of Reward £000
Improve levels of street cleanliness	LPSA 1	181.6	65.6	100	328.0
Increase the recycling rate	LPSA 2	362.3	246.4	100	327.9
Reduce burglary	LPSA 3	20.0	3.2	100	327.9
Reduce violent crime	LPSA 4	20.0	0.8	-	-
Reduce vehicle crime	LPSA 5	20.0	0.6	53	249.3
Reduce antisocial behaviour and improve community safety	LPSA 6	245.0	24.9	33	109.3
Reduce offending by young people	LPSA 7	237.0	57.8	-	-
Improve road safety	LPSA 8	61.7	7.9	-	-
Increase benefit take up by older people	LPSA 9	53.0	8.8	60	196.8
Improve literacy, numeracy and employment skills	LPSA 10	262.0	108.1	70	223.1
Improve life chances for young people	LPSA 11	285.0	155.0	100	327.9
Improve the health and wellbeing of residents	LPSA 12	175.0	56.3	30	39.4
Total		1,923	735.4	54	2,129.6

Table 6 – PSA 2

72. As the PSA funding is subject to separate monitoring arrangements, the budgets and spend have not been included in the departmental totals in

Table 1.

Future Issues – Waste PFI

73. The Executive are already well aware of the long-term financial impact of the Waste PFI Procurement Project. On 27 March 2007 the Executive resolved to commit to funding the additional resources to make the project affordable over the life of the contract.
74. Additionally, the Executive recognised the potential for ongoing changes in the projected costs, and therefore affordability, for the Waste PFI project (and indeed for the status quo comparator) due to factors such as more up to date market information and changes in government policy (eg further increases in landfill tax) rather than fundamental changes to the structure of the business model. The Executive was also made aware that the split of costs is largely based on an indicative 75:25 split between NYCC and CYC, and this will be refined as the project progresses.
75. In this context, the following table provides the latest assessment of the affordability position for the Project over the entire life relative to the last report on this matter considered by the Executive:

Analysis of Revised Affordability Position

Item	£000	Notes
As per Executive – 27 March 2007	120,340	
Additional Costs – Chancellor’s Budget Statement	12,051	1
LATS Purchases (but zero income)	3,219	
50% Reduction on Third Party Recycling Income	15,247	2
	150,857	
Maximum Affordability as per 27 March 2007	135,928	
Increased Affordability Gap “Envelope”	14,929	

76. In addition, it should be recognised that further sensitivities could impact upon the Project. Analysis of some of the potential sensitivities is noted below:-

	Project £000	CYC (@25%) £000
Capital expenditure costs at 10% higher	35,735	8,934
Operating expenditure costs at 5% higher	11,894	2,973
1 year delay in construction of EFW plan	11,300	2,825

77. The report to the Executive on 27 March 2007 did not include additional costs following the Chancellor's Budget Statement on 21 March 2007 although a verbal update was provided at the meeting of 27 March. The Chancellor's Budget increased the value of Landfill Tax by an additional £5 per tonne per year from 2008/09 to 2010/11 and also made changes to Capital Allowances which will impact upon the costs of construction. It should be noted that the increase in the project's costs following the Chancellor's Budget Statement is exceeded by the increase in the cost of the status quo due to the dependence upon landfilling and the subsequent increases in landfill tax.
78. Defra have suggested that a more prudent assessment of income be included; this prudent assessment was included within affordability envelope which the Executive resolved to fund on 27 March. Clearly if the current market prices for recycled materials are sustained then the affordability position will be greatly improved.
79. To avoid the need for routine reports on each consequential change to the financial model, the Executive are therefore now requested to affirm that the Council is committed to funding the additional resources of up to £155m representing (£150,857k plus £4,143k to allow for further possible sensitivities) required to make the project affordable over the life of the contract, subject to any further obligations and financial parameters as directed by Defra or any other government department.

Consultation

80. With the exception of corporate budget items responsibility for which is reserved to Executive, all elements of this report have been consulted upon as part of the wider Finance and Performance Monitoring Reports considered by individual EMAPs. These considerations have resulted in the carry forward requests detailed at paragraphs 56 to 58.

Options

81. Executive could choose to not agree some or all of the individual carry forward requests outlined in this budget. To do so would have an impact upon the continued delivery of specific areas of work and reprioritisation of resources within directorates.
82. The Executive could also choose not to support the supplementary estimate requests made by the Chief Executives Department and Neighbourhood Services. For the Chief Executive this would require savings proposals to be developed and implemented to deliver the £123k which it is estimated is required for these areas. Until such proposals were produced it is not possible to quantify their impact on services. For Neighbourhood Services refusal may result in increased risks to staff and damage to property and the Directorate would need to rework existing budgets and services to mitigate such risks.

Corporate Priorities

83. The principal function of this report is to provide a snapshot of the council's financial performance during the year 2006/07. As such it contributes to the proper financial management of the authority.

Implications

84. Financial - these are addressed in the body of the report.
85. Human Resources - there are no human resource implications.
86. Equalities - there are no equality implications.
87. Legal - there are no legal implications.
88. Crime and Disorder - there are no crime and disorder implications.
89. Information Technology - there are no information technology implications.
90. Property – there are no property implications.

Risk Management

91. Budget monitoring is a key element of the management processes by which the council mitigates its financial risks. This report provides members with a detailed summary of the council's performance in 2006/07 and the context in which its 2007/08 budgets must operate. The issues identified at paragraph 19 highlight some key risk issues which members may wish to consider.

Conclusions

92. While at £3,809k the General Fund Revenue Account outturn is significantly better than that which had been predicted the one off nature of many of the savings have masked the underlying financial problems that the council faces. In looking ahead if the council is to maintain its track record of providing high quality services then it will need to continue to robustly address its financial pressures that exist. This will remain a key priority for future budget processes.
93. The extent of the projects to which the Council is committed that have not been completed in 2006/07 can be demonstrated by the requests to carry forward £1,519k into 2007/08 (an increase of approximately £360k on the preceding year), to enable work to be completed. If approved, this will reduce the underspend to £2,290k which will be transferred into the general reserve. Members are asked to review these requests to carry forward funds.
94. While this transfer will provide some headroom in the council's reserves and balances over the recommended minimum balances such headroom will, as annex 5 demonstrates, be required to provide funding for developments in future years. Members are reminded that balances should only be used to fund non-recurring, that is one-off, expenditure. Using balances to fund recurring expenditure items creates funding problems in future years, as the

resources no longer exist, but the expenditure will. Also, any further large approvals against these balances will reduce the scope for Members to utilise reserves to fund overspends or new investment in future years.

Recommendations

95. Members are asked to:
- a. Note the provisional outturn position;
 - b. Review the requests to carry forward funds into 2007/08, totalling £1,519k for general fund services, detailed in Annex 4 and summarised in paragraph 55, and determine which ones should be approved;
 - c. Agree the supplementary estimate in 2006/07 of £135k in relation to the changes in accounting treatment of the costs of capital disposals, as highlighted in paragraph 36;
 - d. Agree supplementary estimates in the 2007/08 budget for the Chief Executive's department for £123k and Neighbourhood Services for £100k;
 - e. Approve the request to carry forward £39.3k for the housing revenue account, detailed in Annex 4 and summarised in paragraph 58;
 - f. Approve the increase in the Neighbourhood Services Trading Account Reserve by £139k to £439k;
 - g. Approve the transfer of the remaining underspend to revenue reserves;
 - h. Note the enhanced priority placed by the Director of Resources on the need to address the issues identified as part of future monitoring rounds.

Reason: to enable the Executive to set a revised budget in 2007/08 and monitor it effectively.

Author:

Author's name
Peter Steed
Head of Finance
Dept Name Resources
Tel No. 1745

Tom Wilkinson
Corporate Finance Manager
Tel No. 1187

Chief Officer Responsible for the report:

Chief Officer's name Simon Wiles
Title Director of Resources

Report Approved Date 16/6/06

Chief Officer's name Peter Steed
Title Head of Finance

Report Approved Date

Specialist Implications Officer(s)

Finance – Peter Steed, Head of Finance
Other Implications – Not Applicable

Wards Affected: List wards or tick box to indicate all

All

Background Papers

Second Finance and Performance Monitoring Report
Outturn Monitoring Reports to Individual EMAPs

Annexes

1. General Fund Net Expenditure Budget
2. Comparison Between Under/Overspends in Last Monitoring Report and the Provisional Outturn
3. Other Centrally Held Budgets
4. Requests to Carry Budgets Forward into 2006/07
5. Reserves Position and Forecast
6. Venture Fund