

Report of the Director of Resources

Report to Executive Board

Date: 16th May 2012

Subject: Provisional Outturn Financial year ended 31st March 2012

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4.3 Appendix number: Appendix 1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. The purpose of this report is to inform members of the provisional outturn for the financial year 2011/12. The final position will be reported to the June meeting and the pre-audited accounts will be presented to the Corporate Governance and Audit Committee at its meeting on the 4th July.
2. As set out below, the provisional position on the General Fund shows an underspend for the year of £0.8m compared to the original budget.
3. There was no budgeted surplus or deficit in respect of the Housing Revenue Account, but the provisional position shows a surplus of £1.2m, which will be added to their reserves.

Recommendations

5. Members are asked to note the provisional outturn position of the authority for 2011/12 and approve the setting aside of £4.1m in earmarked reserves for general fund services and £2.5m for the Housing Revenue Account.

1. Purpose of this report

- 1.1 This report sets out for the Board the Council's provisional financial outturn position for 2011/12 and comments on the key issues impacting on the overall achievement of the budget for the current year.
- 1.2 The final outturn position will be reported to the Board on 20th June 2012. This will include any significant variations from the reported position and will incorporate the final position on schools and the ALMOS, capital outturn and other key financial indicators including Council Tax collection and the payment of creditors.

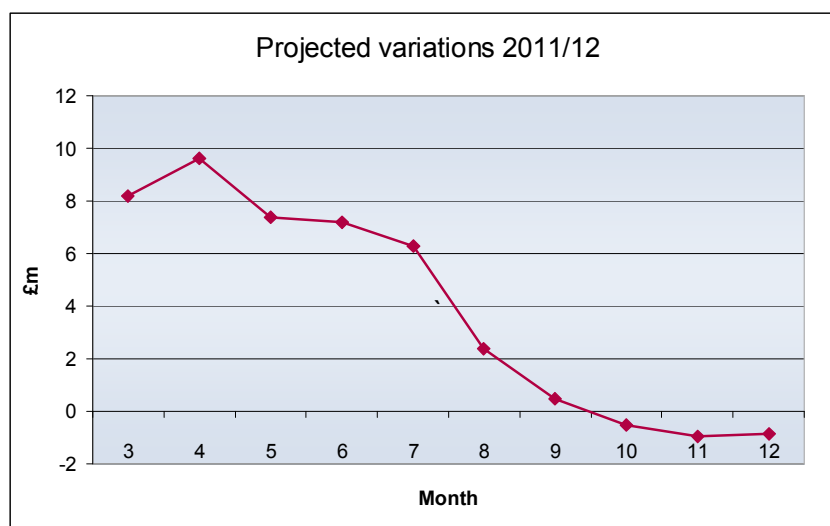
2. Background information

- 2.1 The Council's net General Fund budget for 2011/12 was set at £582.2m, supported by the use of £2m of reserves. The level of general fund reserves at 31st March 2012 was estimated to be £19.4m.
- 2.2 Following the closure of the 2010/11 accounts, the level of General Fund reserves stood at £21.2m at 31st March 2011. However, following the resolution of a claim with HMRC regarding the treatment of trade waste, the Council received £8.4m in settlement, including interest. This boosted reserves to £29.6m. Members at their meeting in October 2011 approved the transfer of £3.5m to the early leavers earmarked reserve to meet the severance costs of the scheme and a further £0.1m was earmarked to cover the cost of other ongoing VAT claims.

3. Main Issues

- 3.1 The 2011/12 budget represented a major financial challenge for the Council, and the loss of Government Grant plus pressures on spending resulted in the Council needing to identify around £90m of savings. The budget included some difficult and challenging decisions and whilst not all planned savings have been fully achieved, other savings have been identified and additional income secured. Overall the Council has responded well to these challenges in arriving at the provisional outturn position. This has meant that a substantial proportion of the Council's budget plans have been delivered. Chart 1 below shows how the projected position has reduced during the year

Chart 1



- 3.2 The provisional outturn position is an underspend of £0.8m as detailed in Table 1 below.

Table 1

Provisional (Under) / Over Spend for the year				
Directorate	Staffing	Expenditure	Income	Total Under/ Overspend
	£000	£000	£000	£000
Adult Social Care	(646)	2,601	(2,864)	(909)
Children's Services	(1,658)	3,947	(2,270)	19
City Development	(104)	1,286	920	2,102
Environment & Neighbourhoods	2,076	(1,333)	345	1,088
Resources	202	2,337	(2,730)	(191)
Legal Services	712	147	(733)	126
Customer Access and Performance	(52)	(234)	3	(283)
Total	530	8,750	(7,329)	1,952

Corporate issues	
Debt	(3,300)
Use of capital receipts	1,300
Section 278 shortfall	2,900
New homes bonus	(5,333)
Other variations	1,639
Total	(842)

- 3.4 The main issues contributing towards the provisional outturn position are:

- 3.4.1 Staffing – Savings have been achieved through a combination of a tight recruitment policy and the Early Leavers Initiative which was launched during 2010; these measures together resulted in more than 1159 fte staff voluntarily leaving the Council by 31st March 2011.

The 2011/12 budget assumed a continued reduction in staffing costs of £45m compared to 2010/11. Following the launch of a further round of the Early Leavers scheme, this has been achieved with 636fte staff (excluding schools) leaving during the year. The one off severance costs of the scheme was £4.5m in the current year which was to be met from the early leavers earmarked reserve. This fund has only been used to assist those directorates who have not been able to meet the pressure from within their own budget leaving £4.6m to be carried forward to 2012/13.

Overall there is a small projected overspend on staffing. However, within Environments and Neighbourhoods there have been particular pressures following delays in the withdrawal of the refuse collection backup service and the cost of staff across the directorate in managing workforce change.

- 3.4.2 Adult Social Care – demography and other pressures

Over the year overall placement numbers have been slightly below those originally predicted and within these figures placement numbers for the independent sector have averaged 5 per week below the predicted number. This, together with the full year effect of 2010/11 placements, has resulted in an underspend of £4.5m. However, as reported to Board in September 2011, budgeted procurement savings amounting to £5.75m have not been achieved this year, contributing to an overall overspend on Community Care packages of £1.8m.

Additional funding has been provided via the Primary Care Trusts for investment in social care services which give rise to benefits in the health system. £4m has been allocated to Leeds by NHS Airedale, Bradford & Leeds; this funding has been utilised to support the reconfiguration of interventions and their impact within the health and social care economy in Leeds and specifically the impact on Adult Social Care, the delays in achieving the procurement savings within residential and nursing care and the development of intermediate care services within one of the Council's residential care homes. In addition national funding was received for Winter Pressures from the Department of Health amounting to £2.1m. Much of this funding relates to activities which span financial years. Accordingly, Executive Board are requested to approve the creation of a £2.5m earmarked reserve from the health funding received in 2011/12 for expenditure to deliver the required changes that will be incurred in 2012/13. A range of alternatives, in many cases integrated provision with the health service, are required to ensure the future sustainability of Adult Social Care and Health. These alternatives involve significant change and in order to properly support this, substantial resources will be required in change management, programme management, workforce development, systems and process redesign as well as potentially new or reconfigured services and buildings. In addition, £0.7m has also been set aside from the health funding received in 2011/12 for the health service's capital contribution towards a ground breaking joint intermediate care facility.

3.4.3 Children's Services

The demand-led budget pressures on the Children's Services budget have been well documented throughout the year. In particular, the continuing high number of looked after children placed in externally provided residential and fostering placements has given rise to the need to spend £10.2m more than the budget provided. However very significant efforts have been made within the Children's Services Directorate to identify offsetting savings and other sources of funding, and this has resulted in an overall balanced position. These savings include £0.8m on in-house fostering allowances, a £1.6m distribution of Education Leeds operating surplus and around £2m of costs more properly charged against standards fund grant. Other net savings, including £1.7m staffing savings, have reduced the overall spend for the Directorate. Also, in recognition of the significant role the health service plays in supporting vulnerable children and families and the improved health outcomes which will arise from all relevant partners working together in

different ways, the Primary Care Trust allocated £2m of transitional funding for 2011/12 to support the Council in these matters.

3.4.4 Other services -Income and other pressures

As a result of the economic climate, some areas of income continued to fall short of budgeted levels, in particular in relation to planning and building regulation fees which are projected to be £0.8m below the budget. There are also shortfalls in income from car parking, £0.5m, and advertising, £0.5m.

In addition, there is an overspend of £0.6m on the voids budget whereby City Development maintain and secure buildings on behalf of all directorates once they are declared surplus to requirements.

3.4.5 Capital Financing costs are £3.4m less than provided for in the budget. At the time the budget was set, economic forecasters predicted that short term interest rates would begin to rise in 2011/12; accordingly the budget was set on the premise that the Council could no longer rely on a continuation of its policy to borrow short term for a significant proportion of the debt portfolio, and it was assumed that some longer term, higher interest rate borrowing would be taken up in order to protect the Council from the financial risk of rising interest rates. However interest rates remained low during the year.

3.4.6 The budget provided for an innovative funding mechanism for the capital element of PFI rentals. This involved the use of capital receipts to a value of £11.2m. In the event the level of capital receipts available to support the revenue budget in this way are £1.3m less than the budget which assumed a stretched target for the capital receipts programme.

3.4.6 The Council receives income from developers to fund highways works which are required for new development schemes. These are known as section 278 agreements and the Council's 2011/12 revenue budget provides for income of £5.2m for such schemes. The provisional outturn shows a £2.9m shortfall which reflects the continuation of the difficult economic climate.

3.4.7 Following consultation with the external auditor, it has recently been confirmed that the instalments of the New Homes Bonus should be accounted for on an accruals basis rather than on a cash basis. This means that additional income of £5.3m has been brought into 2011/12. This is a timing issue and does not affect the total amount to be received through the bonus scheme.

3.4.8 The Chartered Institute of Public Finance and Accountancy has recently issued guidance regarding the accounting requirements of the Carbon Reduction Commitment (CRC) Energy Efficiency scheme in 2011/12. This means that although the purchase of allowances will not take place until June 2012, the emissions that give rise to the obligation relate to 2011/12 and therefore the authority's CRC liability will arise during the 2011/12 financial year. It is estimated that the cost to general fund services will be £800k. This is in addition to the liability for schools which is expected to be around £500k.

3.4.9 The Council has major ongoing legal case and has incurred substantial litigation costs to date. The provisional outturn reflects a net £0.5m pressure for this issue. Further details can be found in the confidential report at Appendix 1.

4.0 Reserves

4.1 General reserves as at the 31st March 2012 can be summarised as follows:-

General reserves	2011/12 Outturn £m
Balance as at 31st March 2011	21.2
<i>Add:</i> VAT refund	8.4
<i>Less:</i> transfer to ELI & VAT reserves	-3.6
actual usage in year	-1.2
Provisional Balance 31st March 2012	24.8

4.2 Earmarked reserves

4.2.1 Executive Board are requested to approve the creation of earmarked reserves totalling £4.1m to support the 2012/13 budget as follows:-

- £3.2m for health funded schemes in Adults social care as detailed in para 3.4.2
- £0.2m within Children's Services - recognising the distinct partnership nature of the Youth Offending Service and the need to manage it's resources effectively over a multi-year period, it is proposed to create an earmarked reserve of £0.2m from the underspend in 2011/12.
- £0.6m within Environments and Neighbourhoods to ensure delivery of two key initiatives. £0.225m relates to an underspend in the burglary reduction programme within Community Safety and £0.342m on the Young People's employability initiative to ensure sufficient funds are available to deliver the agreed outcomes.
- £0.1m within Customer Access and Performance - in line with the business plan assumptions, the surplus on the Economic Intelligence Unit is to be carried forward. For 2011/12, this is £33k. Funding of £70k was released for a review of the Siebel system, which has largely slipped to 2012/13, requiring a carry forward of £64k.

4.2.2 The 2011/12 budget for Supporting People assumed a reduction in resources of £3.8m, however, the provisional outturn shows contract spend has reduced by only £2.1m. A three year plan has been adopted to achieve future savings which builds in appropriate consultation and procurement periods, whilst

preserving essential services to vulnerable clients. It is proposed to fund the short term funding gap of £1.7m through the use of the capital reserve¹, which will be reimbursed over the next 2 years.

5. Housing Revenue Account (HRA)

- 5.1 The provisional outturn for the HRA is a surplus of £1,193k against the 2011/12 budget. Key income variations include a projected increase in rents from dwellings (£2.7m) and shops (£0.2m). The additional income from dwelling rents is mainly due to void levels being lower than budgeted and will result in £1.7m being paid to the ALMOs as incentive payments.
- 5.2 Other key income variations from the 2011/12 budget include additional fee income of £0.2m for work undertaken by Property Management Services and an additional £0.3m of telecoms income as a result of new lease agreements/rent reviews.
- 5.3 Key expenditure variations include an increase in contributions to the Sheltered Warden's function (£0.2m), an increase in costs associated with an ongoing legal case (£0.5m) and the Family Intervention and Victim Support Schemes (£0.5m).
- 5.4 These overspends are partially offset by projected savings on salaries and wages of £0.2m and other running costs of £0.4mk.
- 5.5 In addition, the Strategic Landlord paid out £0.1m less than budget to the ALMOs in relation to the Performance Management Scheme, and the provision for disrepair was £0.1m less than budgeted.
- 5.6 Executive Board are requested to approve the creation of two HRA earmarked reserves as follows:-

£0.335m – to create an insurance claim reserve fund within the HRA
£2.165m - to fund potential pressures arising from Welfare Reform

6 Corporate Considerations

6.1 Consultation and Engagement

6.1.1 This is a factual report and is not subject to consultation

6.2 Equality and Diversity / Cohesion and Integration

6.2.1 The Council's revenue budget for 2011/12 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 23rd February 2011.

¹ The capital reserve is an equalisation reserve whereby contributions for capital purchases by directorates are paid into the reserve over the life of the assets. Funding is transferred back into revenue over time to meet the debt costs which will be made over a longer time period.

6.3 Council Policies and City Priorities

6.3.1 The 2011/12 budget targeted resources towards the Council's policies and priorities. This report comments on the financial performance against this budget.

6.4 Resources and Value for Money

6.4.1 This is a revenue financial report and as such all financial implications are detailed in the main body of the report.

6.5 Legal Implications, Access to Information and Call In

6.5.1 There are no legal implications arising from this report. In accordance with part 4 (f) of the Council's Constitution (Budget and Policy Framework Procedure Rules) Executive Board shall be entitled to vire across budget headings subject to value limits set out in the Financial Procedure Rules. There are no requests this month.

6.5.2 The information in Appendix 1 of this report has been identified as exempt because it contains information relating to the financial or business affairs of a particular person and is part of an ongoing legal case. It is considered that the public interest in treating this information as exempt outweighs the public interest in disclosing it and that this element of the report should be treated as exempt under Access to Information Procedure Rule 10.4.(3) as it is subject to litigation privilege.

6.6 Risk Management

6.6.1 The Council has prepared and maintained a financial risk register for a number of years. The register details the risk and consequences, existing controls to mitigate against the risk, the value in monetary terms of the risk, review dates and progress towards managing the risk within existing resources. The register is prepared before the start of each financial year and is monitored on a regular basis.

6.6.2 At the start of the year, the budget risk register showed there were 3 very high risks and 10 high risks. The very high risks were:

- Procurement savings within Adult Social Care
- Independent Fostering Agency Placements
- Externally provided residential placements

All risks have been closely monitored throughout the year and have been managed within the overall resources available to the Council.

7. Recommendations

7.1 Members of the Executive Board are asked to note the provisional outturn position and to agree the creation and delegated release of earmarked reserves as detailed in paragraphs 4.2 and 5.6 above.

8. Background documents²

- 8.1 Revenue Budget Report 2011/12 approved at Executive Board 11th February 2011
- 8.2 Monthly Financial Health reports to Executive Board
- 8.3 Financial risk register 2011/12

² The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.