



Report of the Director of Corporate Services

Executive Board

Date: 14th June 2006

Subject: FINANCIAL OUTTURN 2005/06

Electoral wards affected:

Specific implications for:

Ethnic minorities
Women
Disabled people
Narrowing the gap

Eligible for call In

Not eligible for call in

(details contained in the report)

Executive Summary

This report presents the Council's financial performance for the year ending 31st March 2006, prior to the submission of the annual accounts to Corporate Governance and Audit Committee for approval, and subject to audit.

Within the General Revenue Fund, as reported in the half year report on the financial health of the authority and reaffirmed in the Revenue Budget report presented to Members in February 2006, there are a number of spending pressures which have had to be dealt with. The Council's 2005/06 budget assumed the general fund reserve at 31st March 2006 would stand at £12m. However, after taking account of the reported outturn position as described within this report, the revised position is £10.6m, a reduction of £1.4m. An analysis of departmental spending to outturn is attached at appendix 1. These include an additional £1m within Social Services, which is on top of the £3m allocated to the department in November last year. In addition, a shortfall in income has meant that the Council's sheltered workshop at Roseville has incurred a deficit of £2.3m. City Services are showing an overspend of £651k, which includes additional costs of recycling of £707k following a fire at a contractors recycling facility, whilst the continuing reduction in the trading base of the department's property maintenance services has resulted in a deficit of £1.5m.

In accordance with the approved reserves policy, departments will be required to carry forward outturn variations up to a maximum of 2%, and in the case of overspends will be required to replenish reserves over the two forthcoming financial years to ensure that the Council remains on track to achieve its target level of reserves by 31st March 2008.

Variations within the Housing Revenue account have resulted in working balances of £3.5m as at the 31st March 2006, which is mainly due to a reduction from the budgeted contribution to the provision for disrepair claims, improved doubtful debts provision and increased rental and property services income. An earmarked reserve of £4.5m has been created to fund additional payments to be made to ALMOs in 2006/07 and to provide against future subsidy losses.

Spending on capital investment in total was £8.4m less than programmed Resources have been used for the HRA and the general fund programme to achieve the cost effective funding mix for the overall programme.

Other areas of financial performance reported include schools reserves and the collection of local taxation, sundry income and prompt payment.

1.0 Purpose of this report

- 1.1 The 2005/06 Statement of Accounts will be presented to the Corporate Governance and Audit Committee for approval on the 29th June 2006 and the report of the auditors will be referred back to that Committee in due course.
- 1.2 Following approval by Committee, in accordance with the 2006 Audit and Accounts Regulations, the Accounts will be available for public inspection for 20 days from the 30th June 2006.
- 1.3 Following completion of the audit it is intended to provide information through the About Leeds newspaper in support of the Council's commitment to engage citizens in the consultative process.
- 1.4 However, Executive Board, as in previous years, are asked to consider the financial performance of the Council during the year and approve the creation and usage of the Council's reserves.

2.0 General Fund Outturn – Summary

- 2.1 In overall terms the outturn position for the General Fund now reported will generate a contribution to general reserves of £0.8m which is £1.4m less than the budget provided. This is due to a number of significant variations which are reviewed in paragraph 3 below. However, in accordance with the Council's approved reserves policy, departmental outturn variations are to be carried forward and repaid over two years, with a minimum requirement that 25% is repaid within the first year.
- 2.2 Departments are required to provide the Director of Corporate Services with details of their proposals for achieving the required saving over the two years.

3.0 Departmental Variations

- 3.1 A summary of variations at departmental level is shown at Appendix 1, and major variations commented upon in the following paragraphs:

3.2. Social Services

- 3.2.1 The 2005/06 budget included challenging targets for service improvement and realignment and although significant progress has been made in the current year, demand pressures have continued and there has been some slippage in delivering the planned actions. After allowing for a £3m virements approved by Board during the year, the outturn position was £1.1m higher than the Latest Estimate and the most significant areas of variation are set out below:
- 3.2.2 Staffing costs were £1.1m less than the Latest Estimate and reflects tight management control, together with recruitment difficulties and improved attendance management in some service areas. The use of agency staff and overtime has been tightly controlled by managers and spending in 2005/06 was £1.8m (18%) less than in 2004/05.
- 3.2.3 The cost of independent sector domiciliary care was £0.4m higher than the Latest Estimate. This reflects some slippage in delivering budgeted savings and demand pressures, particularly in respect of hospital discharges. The budgeted increase in direct payments was not fully achieved, giving rise to a saving of £1.4m. This was offset by increased costs of community care packages, net of associated income. Within the Joint Commissioning Service for People with Learning Disabilities, the learning disability pooled budget is facing growing demographic pressures, with an increasing number of service users with very complex needs requiring expensive packages of care. Action is being taken to reconfigure services and deliver more cost effective care, but this will take time to

achieve in full. For 2005/06 the additional cost of the pooled budget falling to Social Services amounts to £1.0m.

- 3.2.4 Expenditure on external hire of vehicles was £0.9m higher than budgeted, the main area of spend being transporting Looked After Children to school. Additional costs of £0.5m were also incurred for the use of fleet vehicles. These variations reflect some delays in delivering budgeted savings and demand pressures within frontline services.
- 3.2.5 The above pressures are partly offset by increased Housing Benefit and Supporting People income which was £1.2m higher than budgeted, partly because the transfer of Supporting People funding out of learning disability services in accordance with the Commissioning Strategy will now not take place until 2006/07. Income from service users was £0.7m less than the Latest Estimate, partly offset by additional income of £0.3m from outside organisations.
- 3.2.6 In addition to the above, Roseville Enterprises incurred a net deficit in year of £2.3m compared with the budgeted break-even position. The reduced volumes of uPVC windows and doors work undertaken by Roseville in 2004/05 have continued in 2005/06. The significance of this trend was recognised early in 2005/06 and an action plan put in place to seek expenditure reductions and alternative areas of business to eliminate the deficit. It became apparent, late in the year that these actions had not come to fruition. The Corporate Efficiency Review Team is currently undertaking a fundamental review of Roseville Enterprises within the context of the Council's Workstep programme to support its disabled employees and its commitment to equality and social inclusion. As this deficit relates to trading activities, and previous year surpluses have not been carried forward, it is proposed that this deficit be dealt with in the current year.

3.3 City Services

- 3.3.1 Following a fire at a contractor's recycling facility in April 2005; the Authority was required to contract into more expensive alternative arrangements for the disposal of SORT material. This additional cost of £707k has been partly offset by a reduction in the cost of disposal of other waste collected of £135k.
- 3.3.2 The Refuse Collection service overspent by £1.3m as a result of the increased utilisation of agency staff and overtime and additional transport costs to address service pressures arising from the continued increase in property numbers, higher levels of sickness than budgeted for.
- 3.3.3 As a result of increased investment in the highways infrastructure and an enhanced inspectorate regime, there has been a reduction in the number of Third Party liability claims submitted for accidents on the public highways. This has resulted in a reduction in the required contribution to the Authority's Insurance Provision of £679k.
- 3.3.4 Procurement costs associated with the implementation of the Street Lighting PFI were £210k greater than the budget.
- 3.3.5 Net car parking income is £295k higher than budgeted, reflecting reduced income of £752k from the first year of decriminalisation, offset by increased usage of the Council's car park facilities.
- 3.3.6 The department has identified an additional £1.1m of expenditure which can be more properly classified as capital spend and as such has been transferred to the capital programme and largely offsets the above spending pressures.
- 3.3.7 The deficit on Property Maintenance traded service of £1.5m is due to a combination of factors which reflect the fact that the service is still in the process of responding to the substantial reduction in its trading base following the loss of maintenance contracts with ALMOs. More specifically charges for work done have been insufficient to cover the

associated costs, the level of non-chargeable time is higher than budgeted for and the level of income realised is less than had been anticipated. As explained in paragraph 3.2.6 it is proposed that this deficit is dealt with in the current year.

3.4 Learning and Leisure

- 3.4.1 The outturn position for Learning and Leisure has taken account of the following pressures; the mid year energy price increases of £220k; £100k for the travellers clean up costs, VER and severance costs in Jobs and Skills amounting to £200k which have facilitated the realignment of future years expenditure with grant expectations; the shortfall in Equal grant received by Jobs and Skills of £400k and the continuing shortfall of the Community Centres budget, reflecting low income achievement and overspend on caretakers which amounts to £250k.
- 3.4.2 These pressures have been contained to within £160k of the budget by maximising the Early Years Children's Centre grant, producing a saving on the LCC funding of the service, and by strict internal controls on staff appointments.
- 3.4.3 Within Education, the overall net overspend of £59k is largely due to additional legal costs of £68k relating to the new contract for Education Leeds, additional re-deployment costs of £46k partially offset by savings on Pupil Support of £44k.

3.5 Neighbourhoods and Housing

- 3.5.1 Regeneration has underspent by £0.2m due to savings on a number of schemes. This is after accounting for additional spend of £0.3m on the Area Wellbeing budget met from previous years' brought forward monies.
- 3.5.2 Within Community Safety, a staffing overspend of £0.1m caused by the effect of unbudgeted staff and the use of agency staffing, has been offset by a reduction in support costs and increased grant within Community Safety, producing an overall underspend of £0.4m.
- 3.5.3 An underspend of £0.5m within Environmental Health, which is mainly due to savings in running expenses and a reduction in support costs, is partially offset by a £0.4m overspend in Housing Needs which has largely resulted from staffing overspends, an element of which has been employed in the prevention of homelessness which has led to a reduction in both the cost and number of homeless cases.

3.6 Development

- 3.6.1 The overall position for Development was an underspend of £101k. In accordance with the budget action plan, savings have been made in general running expenses to offset potential overspends. The most significant variations are detailed below:
- 3.6.2 Expenditure on Planning and Development exceeded the budget by £400k primarily due to increased staffing costs of £250k. A shortfall in planning fee income was offset by an increase in building fees.
- 3.6.3 Within strategy and policy staffing was £62k overspent mainly due to low turnover. The additional cost of the maintenance of signals in UTC was £172k, although this was partly offset by developer contributions and additional recharges to capital.
- 3.6.4 Economic Services staffing levels have been under budget producing an underspend of £145k, whilst additional income generation amounted to £200k.

3.7 Corporate Services

- 3.7.1 The overall underspend of £307k is largely a result of pay and running cost savings within Benefits Administration and Student Support. After taking account of variations in spend on demand led budgets which are outside of the carry forward rules, the department will be eligible to carry forward £85k.

3.8 Chief Executives

- 3.8.1 An overspend of £135k within Customer Services, predominantly due to the change in location of the Corporate Contact Centre, is offset by additional income generated by Legal and Democratic Services, resulting in an overall net underspend of £37k.

3.9 Strategic accounts

- 3.9.1 Spending pressures across the authority are supported by measures taken corporately to balance the approved budget. This includes the identification of one off sources of income.
- 3.9.2 In 2005/06 the budget provided for the use of £4m of Highways Section 278 agreements, although the actual receipts in the year were £0.5m less than this. The latest estimate as approved by the Board assumed that items more properly charged to capital would generate £4.5m savings in revenue, based on the level of capitalisation achieved in 2004/05. However the spending pattern in 2005/06 has meant a shortfall of £1.0m.
- 3.9.3 Additional income of £3.4m has been provided for in respect of monies due from the Passenger Transport Authority regarding the cessation of the Supertram project £2.3m and, in its first year, income from the Local Authority Business Growth Incentive scheme is £1.1m higher than budgeted at £3.1m. However following the final assessment of the LPSA targets, the level of the performance reward grant is lower than anticipated by £1.2m. A reassessment of the Insurance provision required an additional £0.5m to be provided.
- 3.9.4 In order to reduce the impact of departmental spending levels on the General Fund Reserve, £2.2m has been transferred from the capital reserve. This has been generated by contributions from departments to fund unsupported borrowing and relates primarily to equipment and vehicles previously funded through leasing. The reserve was being accumulated to fund the impact on future debt charges of this unsupported borrowing, and consequently future budgets strategies will need to take account of this decision. This, together with savings on general and other running costs of £1.5m has offset the over commitment of £1.5m on the central contingency fund.
- 3.9.5 Additional income generated from the Housing Revenue Account of £1.5m in respect of IT development costs on the Orchard system has been included in the strategic account.

3.10 Connexions West Yorkshire

- 3.10.1 2005/06 is the first full year of operation of Connexions as part of Leeds City Council. It is fully funded by grant income from the DfES.

4.0 Corporate Plan Priority Outcomes 2005/06

- 4.1 The 2005/06 budget provided for £4.9m additional resources to be directed towards the Council's corporate priorities and there is no overall variance against this position at outturn. Details of the priorities and performance is provided at appendix 2, but in overall terms the Council has been successful in directing the planned level of resources to its priorities and in achieving its desired outcomes.

5.0 General Fund Reserves

5.1 The general fund reserves position at 31st March 2006 is summarised in the table below:

2005/06	Latest Estimate £m	Outturn £m	Variation £m
General Fund reserve			
Brought Forward 1st April 05	9.8	9.8	
Estimated contribution to (from)	2.2	0.8	-1.4
Carried Forward 31st March 06	12.0	10.6	-1.4

5.2 The 2006/07 budget provides for a contribution to reserves of £0.3m to achieve a balance of £12.3m at 31st March 2007, which is line with the Council's current reserves policy designed to cover the estimated financial risk of the Council as assessed under the risk based reserves strategy.

5.3 As can be seen from the above table there is a shortfall of £1.4m and under the carry forward rules, underspending departments will be permitted to spend £0.6m in 06/07 and those departments which overspend will be required to pay back a minimum of £0.5m (25% of the overspend carried forward). This would leave a shortfall at 31st March 2007 of £1.5m.

5.4 Budget monitoring is ongoing in 2006/07 and an assessment is being undertaken to determine the extent to which some of the spending pressures which impacted in 2005/06 will potentially reoccur. Of particular concern is the likely position of Roseville Enterprises and Property Maintenance which will be closely monitored.

5.5 However, interest savings of £2.5m have been achieved due to a debt re-scheduling exercise in May 2006. It is thus proposed that £1.5m of this is transferred to the general fund reserve to replenish reserves to the level agreed in the budget, with the balance of £1.0m being transferred to contingency fund, to be held against 2006/07 spending pressures.

6.0 Capital Programme

6.1 The latest approved Capital Programme estimated capital expenditure in 2005/06 to be £363.9m, £205.7m for the general fund and £158.2m for Housing. In March 2006 additional funding for the Housing Decency Programme was announced by the ODPM, giving a total programme £377.5m.

6.2 The resources available to fund the capital programme were £367.8m compared to actual spend of £369m.

6.3 General Fund Spend

6.3.1 The following table shows the in year actual expenditure against estimate:

General Fund	Estimate	Outturn 1	Variation 1	
	£000	£000	£000	%
Development	32,857	29,555	(3,302)	-10%
City Services	18,044	18,048	4	0%
Corporate Services	8,982	7,445	(1,537)	-17%
Learning and Leisure	39,738	40,348	610	2%
Education Leeds	44,476	44,381	(95)	0%
Neighbourhoods and Housing	11,334	8,914	(2,420)	-21%
Chief Executives	2,386	2,232	(154)	-6%
Social Services	3,419	2,464	(955)	-28%
Strategic Accounts	44,456	41,277	(3,179)	-7%
Total Spend	205,692	194,664	(11,028)	-5.4%

6.3.2 The above table includes provision for Equal Pay, funded through the use of capital receipts, as reported to the November 2005 Board in the half year capital programme update report.

6.4 Housing Revenue Account Spend

6.4.1 The following table shows the in year actual expenditure against estimate:

HRA	Estimate	Outturn	Variation	
	£000	£000	£000	%
Strategic Landlord	3,324	2,814	- 510	-15%
ALMOS	168,469	171,540	3,071	2%
Total Spend	171,793	174,354	2,561	1.5%

6.4.2 The ALMO total spend of £174.4m was therefore £2.56m above their budgeted position. This is an indication that the ALMOs are ahead of schedule in achieving Decency. Details of non decency (general fund spend delivered by the ALMOs) will need to be identified to determine the overall funding position for the companies.

6.5 Capital Resources

6.5.1 Capital resources to fund the programme have varied. Capital receipts achieved totalled £81.8m, including useable capital receipts from right to buy sales of £15m.

6.5.2 Resources from Highways S278 agreements and other funding sources have again been used to support the revenue budget rather than the capital programme as detailed at paragraph 3.92 above.

6.5.3 Resources have been used for the HRA and general fund programmes to arrive at the most cost effective funding mix for the overall capital programme.

Details of the expenditure and financing are shown below:

	£m
Net Capital Spend	369.0
Financed by	
Specific Grants and Contributions	54.3
Capital Receipts	81.8
MRA	36.5
Borrowing	191.9
Revenue Contributions	4.5
Total Funding	369.0

7.0 Housing Revenue Account

7.1 The latest estimate provides for a contribution from working balances of £1.6m. The outturn shows a contribution from working balances of £1.1m, a change of £0.5m as follows:-

HRA	Latest Estimate	Outturn	Variation
	£000	£000	£000
Expenditure			
Employees	12,986	12,507	- 479
Premises	2,866	2,663	- 203
Supplies and Services	7,090	7,948	858
Transport	344	320	-24
ALMO Management fees	97,226	97,477	251
Internal Charges/ Transfer payments	6,238	8,639	2,401
Provision for doubtful debts	2,800	873	- 1,927
disrepair	2,141	196	- 1,945
capital	30,369	32,995	2,626
Income			
Rents and other charges	- 152,633	- 154,414	- 1,781
Housing Subsidy	28,450	30,617	2,167
Other Income	- 40,760	- 47,533	- 6,773
Surplus	- 2,883	- 7,712	- 4,829
Transfer To Swarcliffe PFI	4,517	4,373	- 144
Transfer to earmarked reserves		4,445	4,445
Deficit	-1,634	- 1,106	528

7.2 The main areas contributing to the in year surplus are:

7.2.1 Employee costs savings of £0.5m are primarily due to closure of hostels, and additional costs of £1.5m have been incurred as a result of IT development costs on the Orchard system.

7.2.2 Savings of £2m in the cost of disrepair have been achieved through proactive management of the claims and more challenge given at the point of receipt of new claims which has resulted in a significant fall in the number of cases requiring investigation.

7.2.3 Rental income has exceeded the budget by £1.8m (1.1%) reflecting in part a significant improvement in the level of voids. In addition, savings of £2m in the cost of doubtful debt provision through improved collection rates via the ALMOs, offset by £0.3m in additional performance incentives to ALMOs.

- 7.2.4 Property services income exceeded budget by £2.7m. Fees are based on a percentage of capital spend which increased from £8m in 04/05 to £60m in 05/06. The surplus has been used to fund capital scheme costs.
- 7.2.5 Additional costs of £0.5m have been offset against Right To Buy receipts payable to ODPM following a review of cost allocations and an additional £0.2m has been generated in respect of income from leaseholders as contributions to capital schemes. These have been used to fund capital scheme costs.
- 7.3 An earmarked reserve of £4.5m has been established to mitigate against the risk of subsidy losses of £2m through not meeting subsidy triggers based on average stock levels, £0.5m to reflect the pre-procurement costs of the Beeston and Holbeck PFI scheme and £1.9m for re-distribution to the ALMOs to reflect the savings generated in disrepair claims.
- 7.4 The effect of the above on HRA working balances is summarised in the table below:

Working Balance a/c	2005/06 L.E. £,000	Actual £,000	Variation £,000
Balance Brought Forward	4,606	4,606	
Transfer from / (to) HRA	(1,634)	(1,106)	528
Balance Carried Forward	2,972	3,500	528

8.0 Schools

- 8.1 The projected outturn on the Individual Schools Budget for 2005/06 is as follows:-

OUTTURN	£m
Latest estimate	311.3
Projected Outturn	314.6
Variation	3.3
SCHOOLS RESERVES	
Balance Brought Forward	8.0
Net Contribution from Reserves	(3.3)
VER funding and repayment	(0.3)
Funding of PFI/BSF development costs	(0.8)
Balance Carried Forward	3.6

- 8.2 The 2005/06 budget assumed the use of £0.7m of school reserves to fund the cost of Voluntary Early Retirements in line with the policy agreed by the Board on the 7th March 2001 for the management of school based staff. As outlined in the policy, this should not be seen as using balances of individual schools, but rather from the overall net school balance. The policy requires the reimbursement of these amounts over a 5 year period from Council resources other than those available from schools.
- 8.3 For 2005/06, £0.7m has been repaid, representing one fifth of the £3.4m used to fund VER for the years 2000/01 to 2004/05. The total amount still awaiting repayment amounts to £2.0m (£1.0m from previous years and £1.0m from 2005/06).
- 8.4 The Council's approved financial strategy assumes that PFI/BSF development costs will initially be borrowed from the PFI credit generated in the early years of such schemes. This would then be funded from increase in the Individual Schools Budget over the life of the PFI schemes. Due to changes made by Central Government in the way in which PFI schemes are

funded, the credit is not sufficient to offset the scale of the development cost, and it is thus proposed that £0.8m of the cost in 2005/06 is initially borrowed from overall school reserves and that further consideration is given to future strategy for funding BSF development costs.

8.5 Taking these outstanding repayments into account would have the effect of increasing schools' reserves to £6.8m.

9.0 Other Financial Issues

9.1 Education Leeds

9.1.1 The 2005/06 budget for Education Leeds had assumed £1,133k of operating surpluses being used to support the budget. Education Leeds have now reported their financial position for 2005/06 (subject to audit and their Board's approval) and this shows that an underspend of £967k against the budget resulting in only £166k of operating surpluses being required to be used. This leaves Education Leeds with accumulated surpluses of £2.6m at the close of 2005/06 which be carried forward for spending on Education priorities in future years. These accumulated surpluses were taken into account when determining the contract payment for 2006/07.

9.2 ALMOs

9.2.1 ALMOs are reporting an overall surplus for the year of £15.3m, compared to a budgeted position of £7m. The balance brought forward from 2004/05 was a deficit of £0.8m, giving a surplus carried forward of £14.5m, which has been accumulated for future housing decency expenditure.

9.2.2 The reasons for individual ALMO variations are currently being reviewed but additional SCA windfall, lower interest rates and progress in overall cost reductions have contributed to the position.

9.2.3 The figures reported above are subject to audit and approval of the ALMO boards.

9.3 Local Taxation

9.3.1 The performance statistics for the year in respect of the collection of local taxation are as follows:-

	2003/04 Leeds Actual	2004/05 Leeds Actual	2005/06 Leeds Actual
Council Tax collection	96.2%	96.1%	96.3%
Non Domestic Rates	98.0%	98.5%	98.6%

9.3.2 The amount collectable for Council Tax has increased by £11.8m from £198.1m in 2004/05 to £209.9m in 2005/06. Likewise the amount collectable for business rates has increased from £251.6m in 2004/05 to £264.0m in 2005/06.

9.4 Sundry Income

9.4.1 Overall the collection of current year debt and arrears has improved from 82.5% in 2004/05 to 83.1% in 2005/06.

9.4.2 In respect of the current year debt only, the net amount collectable was £99.5 million with a balance outstanding of £17.3m at 31st March 2006. The amount collectable has increased by £6.7m as compared to the comparable figure last year of £92.8m. Unlike Council Tax and Non Domestic rates where the majority of the amount collectable is raised at the start of the

year, sundry debt accounts are raised on a monthly basis and the amount of debt raised in any one month can vary significantly. The main contributing factor to the balance outstanding at 31st March is that £19.7m was raised during March alone and £14.2m of this amount was still outstanding on 31st March. The figure of £14.2m had been significantly reduced to £6.8m by 30th April 2006.

- 9.4.3 During 2006, Internal Audit will carry out a review of the service covering both collection and work undertaken in Departments. The review will challenge current working practices and make suggestions for improvements.

9.5 Prompt Payment (BV8 - % of undisputed invoices paid within 30 days)

- 9.5.1 The outturn for the year was 90.5% of undisputed invoices paid within 30 days compared to a target of 92%.

- 9.5.2 This is an improvement of 1.7% from 2004/05. The expansion of the use of purchasing cards and the development of electronic ordering and invoicing of goods, will over time reduce the number of paper invoices passing through the Council and hence speed up the process.

10.0 Recommendations

Members of the Executive Board are asked to:

- 10.1 note the contents of this report and agree the proposals with regard to the treatment of reserves and carry forward as detailed in paragraph 5.0.
- 10.2 agree the creation of an earmarked reserve in respect of the Housing Revenue Account as detailed in paragraph 7.3.