

Item no.

Report to : **Executive Committee**
Date: **5th July 2005**
Report of: **Director of Finance and Corporate Services**
Subject: **General Fund/Housing Revenue Account Outturn 2004/2005**

1.0 Purpose of the Report

1.1 To inform members of the financial results for the year ended 31st March 2005 and to consider the proposals arising from the accounts.

2.0 Key Decisions

2.1 The report requires key decisions as contained in the Council's Forward Plan.

3.0 Consultation

3.1 The Management Team have considered and agreed the report. The Head of Financial Management and his team were consulted in the process.

4.0 Executive Summary

4.1 The estimated general fund under-spend was around £1.1m. This does not take account of Planning Delivery Grant of £530k received during the year.

4.2 The main reasons for the under-spend are set out in paragraph 5 of the report.

4.3 The Uncommitted Balance on the General Fund at the 31/3/2005 is £4.4m. This compares to a revised estimate of £3.8m when the 2005/6 budget was agreed.

4.4. Movements in specific reserves are set out in Appendix 1 with brief explanations for their existence.

4.5 The report seeks approval for the establishment of two new reserves, a Planning Reserve and a Corporate Property Reserve. (Para: 6.11)

4.6 The benefits general reserve will increase to £300k but members will recall the potential volatility of the subsidy position where last year we used £200k from the reserve. I'm also concerned that we have only recently embarked on the verification framework.

4.9 The report suggests that £1.5m of the general fund reserve should be utilised. (see para: 6.8).

4.10 The Housing Revenue Account (HRA) made a surplus of £577k.

4.11 The HRA Balance stood at £2.3m at the 31/3/2005. This compared to an estimate of £1.7m when the 2005/6 budget was set. This increase is primarily due to additional subsidy accrued as a result of the council disposing of 10% of the stock over the last 2 years.

4.12 The Capital Programme Working Group will present a future report in respect of 2004/5 together with details of the capital receipts position at March 2005.

Item no.

4.13 The accounts were finalised within the statutory deadline of 31st July 2005.

5.0 Analysis of year-end position – General Fund

- 5.1 Although in the last 2 months of the financial year the under-spend increased by a further £250k when compared to the monitor that represents an improvement on recent years and I'm pleased to report that in overall terms we have a robust monitoring system in place and budget managers take a responsible and disciplined approach generally.
- 5.2 Reports requesting resources in year are generally approached on the basis of financing from existing budgets and this is paying off in terms of stability. There may be an issue in that some of the savings will be as a result of obtaining external funding after fixing the budget and we must be careful that in future rounds the position is managed. Managers are however required to report to Executive Committee when applying for external funding to ensure future funding implications are made clear in making decisions.
- 5.3 Whilst the results are pleasing medium term forecasts show that the base or day-to-day operational budgets will present us with problems in future particularly as external funding is withdrawn or reallocated. Clearly our reserve position is strong and this will help manage any pressures in the short term. In the longer term it is unlikely new money will be forthcoming from the Government and we will need to secure efficiencies/savings and ensure the benefits are channelled in to growth and service improvements where necessary.
- 5.4 Managers have provided information on the variances to budget and although not exhaustive the following gives an indication of savings of a material nature.

Subjective Analysis last 3 years

	2002/3	2003/4	2004/5
	£	£	£
Salaries and Wages-Vacant posts	288,000	300,000	270,000
Investment Income	133,000	83,000	240,000
Contingency Items/Projects	45,000	185,000	135,000
Demand driven increases in Income	200,000	133,000	145,000
Windfalls – Estates (2002/3) Rates 2003/4	64,000	220,000	-
Reallocated savings from Support services	-	-	180,000
<u>Total</u>	<u>790,000</u>	<u>921,000</u>	<u>970,000</u>

- i) Investment income increased for 2 main reasons, slippage in the capital programme delaying the need to borrow and the influx of capital receipts from disposal of assets.
- ii) The contingency items refer to sums set aside in the budget for potential project work and one off expenditure. Regional Government/ Concordat reviews are examples of where money was set aside and not utilised in total.
- iii) Increases in income such as planning fees and land charges are demand driven. Despite budgets being increased in 2004/5 they were still exceeded. We have increased allocations in the 2005/6 budget.
- iv) Re-allocations from support services refer to situations where savings from support services were deemed as material. In such circumstances surpluses have to be returned to individual services rather than be placed in the support service reserve.

Item no.

Service Analysis of Material budget variances

£000s

Under-spends

Highways/Engineering

- | | | |
|-----------------------|----|---|
| - Clearance of Drains | 50 | Increased income/Vacant Post |
| - Bus Shelters | 50 | Planned Work delayed due to manpower difficulties |

Revenues and Benefits

- | | | |
|---------------------------------|-----|--|
| - Council Tax Administration | 80 | Refund IT SLA/Savings from Bailiff Fees/Vacant Post |
| - Benefits Administration | 100 | Refund IT SLA/Vacant posts/External funding secured. |
| - Benefit Subsidy (Provisional) | 180 | Volatile area represents less than 1% of overall budget of £18.5M. |
| - Concessionary Fares | 70 | One off adjustment to recharge mechanism and reduced demand |

Housing

- | | | |
|------------------------|----|--|
| - Homelessness On-cost | 40 | Budget no longer required since EDH formed |
| - Housing Standards | 40 | As above |

Development and Building

- | | | |
|--------|-----|------------------|
| - Fees | 140 | Increased demand |
|--------|-----|------------------|

Democratic Services

- | | | |
|--------------------|----|------------------|
| - Land Charge Fees | 16 | Increased Demand |
|--------------------|----|------------------|

Other

- | | | |
|---------------------------------------|-----|-----------------------------------|
| - Net Saving- Borrowing /Investments | 240 | Delay in borrowing |
| - Contingency – One offs not utilised | 100 | NLPG custodian/Homeless/Concordat |

Overspend

- | | | |
|-------------------------|----|---|
| - Street Wardens Scheme | 60 | Provisional, could be grant outstanding |
|-------------------------|----|---|

6.0 Reserves – General Fund

6.0 Reserves – General Fund

- 6.1 Due to increased levels of savings and under-spends the reserve has seen significant growth over the last 2 years. The difficulty in tracking the position is discussed below but the position for 2004/5 outlines the scale of variances that can occur between firming up figures in say December 2003 and out-turn in March 2005, 16 months later.

- | | |
|--|-------|
| | £000s |
| 6.2 Estimated balance at the time the budget was set | 3065 |
| Revised position at the time the 2005/6 budget was fixed | 3782 |
| Actual position at 31/3/2005 | 4421 |

- 6.3 The reserve position although very healthy implies that the revenue budget may be overstated and whilst there may be some element in that it is imperative that we understand the underlying position in terms of the base budget. In this respect the following is worth noting: -

- Slippage in the capital programme saved substantial borrowing costs say £150k.
- Benefits subsidy varied by around 0.5% on the gross budget of £32m. Saving £200k. Last year the account was in deficit.

Item no.

- Vacant posts saved around £270k.
- Planning demand still high resulting in higher income. £140k.

Ideally there would be no volatility in the benefits account, the capital programme should spend on line, and can we be confident planning income will be sustained at the current levels? If things went to plan savings would be £760k less.

- 6.4 A further issue contributing to the position is access to external monies much of which occurs after the budget is fixed and impacts during the year of account. This of course results in a one off benefit, which will increase reserves, it does not however eliminate the need for the base budget.

~~1 ETEA-cl-OEEETEE=~~

- 6.5 The Council has significant reserves for a District. Appendix 1 sets out our specific reserves, which were established to manage risk and deal with future capacity issues. I'm satisfied with this position as they are justified and subject to review.

- 6.6 However the unfettered reserve position now standing at £4.4m has grown significantly over the last 2/3 years and despite elements being used to create capacity it continues to increase because of the issues outlined above and a disciplined and responsible approach to financial management across the Council as a whole. In saying that I feel we are in a position where the unfettered reserve is excessive and we need to re- assess the position

- 6.7 Clearly I'm anxious to utilise the reserves effectively and whilst there are issues around the base budget I feel £1.5m should be released. Clearly usage needs to be carefully considered and whilst examples are set out below proposals must be in accordance with the Council's priorities.

- Pump priming future efficiencies in service delivery
- One off service improvements/projects.
- Providing short-term capacity. (e.g. Educational promotions around Environmental Services).
- Initiatives to free up revenue budget.

- 6.8 It is important that initiatives do not create further base budget problems and to instil control allocations should only be considered following the preparation of a business case.

- 6.9 Given that programmes for 2005/6 are ongoing it is suggested that the release of reserves be agreed in principle at this stage and members await a further report.

- 6.10 In addition to the above it is suggested that the following reserves are established.

- A Planning Reserve to ring fence planning delivery grant. The grant will be used to tackle future planning issues and service improvement over the next 3 to 5 years. (£538k).
- A Council Premises Reserve of £250k to deal with any project work or issues in connection with this site.

~~pi eecet-PEETAEE-OEEETEE=~~

=

- 6.11 Members will recall that over the coming months we will be establishing a contact centre at the Council. Whilst we can identify extensive training requirements it is likely that there will be change management issues and revenue capacity will be needed. In addition we have limited information as to the impact in the early stages of implementation and additional resources may be required to manage potential peaks in workload. This reserve is the ideal vehicle to deal with the above and I recommend that the balance of £421k be retained for the time being.

7.0 Future Outlook – Medium Term Position

- 7.1 At the time the 2005/6 budgets were prepared revenue deficits were identified in the region of around £800,000 in each of the next 2 years.
- 7.2 Although the projections were crude they gave an indication of potential issues facing the Council.
- 7.3 The position was arrived at taking account of the latest service expenditure plans rolled forward, contributions from reserves and potential growth areas identified through reviews and service plans.
- 7.4 In forecasting the position the following areas are catered for: -
- Wage/salary increases of around 3%.
 - Pension increases of around £150k per annum for the next 2 years.
 - Increased investment and income streams.
 - Costs of phasing out external funding where mainstreaming has occurred.
 - Full mainstreaming of street wardens where costs are estimated at around £450k per annum.
- 7.5 Against the above financing has been estimated on the basis of: -
- Floor increases in revenue support grant of around £250k or 2.5%. This may be optimistic.
 - Council tax increases of around 3%.
- 7.6 Having closed the accounts for 2004/5 we will now carry out a high level review of the medium-term position, using out-turn and revised forecasts as a basis for review. The exact position for 2006/7 will evolve through the budget setting process, which begins in September.
- 7.7 At this stage having examined 2004/5 out-turn and the 2005/6 budget I feel the future position is manageable albeit we will need to build on and strengthen our approach in relation to value for money and efficiencies.

8.0 Housing Revenue Account

- 8.1 Monitoring the HRA for 2004/5 has been rather complex primarily because of the establishment of East Durham Homes (EDH) and the revised subsidy position where we benefited from windfall income because of reductions in our stock levels.
- 8.2 In summary the main variances are due to an improved housing subsidy position (£1m) together with savings in particular the income received from sale of assets with a value of less than £10k. This amounted to around £400k and in accordance with previous practice the benefits are credited to the HRA. This income has spiralled because of the level of disposals and the change of capital regulation, which lifted the limit for treating as revenue from £6k to £10k.
- 8.3 The above position was counter-balanced by an expected overspend on the Management and Maintenance account of £792k. Taking these 2 factors into account the HRA produced a net surplus of £577k, which in effect has strengthened the HRA reserve.

Item no.

- 8.4 The account has been subject to a number of reports during the year particularly around the establishment of East Durham Homes and an apparent shortfall of £1m, which was underwritten by the Council. The management fee is estimated to have overspent by £1.1m during the year members will however recall that the Council contributed additional costs of around £250,000 in respect of redundancy costs and part of the costs of implementing the Orchard Software. As the Management Fee is now on a firmer footing than last year we expect spend for 2005/6 to be within budget.
- 8.5 The overspend of £1.1m was offset by other savings within this heading in particular 'past employee pension costs' which are reflected as a 'below the line' adjustment in the HRA.
- 8.6 The overall improvement is after maintaining the Housing Subsidy claw back account at £400,000 as a prudent measure to safeguard our subsidy position against possible claw back of subsidy, should the need arise. The subsidy system has been substantially revised in the last two years and the full implications are the subject of continuous assessment. The position will be reviewed over the coming year. The £400,000 is available for future use in the HRA should subsidy claw-back not arise.
- 8.7 Members are asked to note the improved reserve position of £2.3m. (Appendix 2).

9.0 Financial Monitoring System

- 9.1 The financial monitoring system is now well established and although the general fund variance from budget is around 7%, the arrangements in place ensures the Council is informed.
- 9.2 Although significant savings/under-spends are likely to occur in the current year there are a number of reasons to have confidence in the system.
- The profile and importance of good financial control is established and was acknowledged in the CPA judgement, this is reinforced by regular reports to the Executive and Scrutiny where appropriate, and ultimately the involvement of portfolio holders.
 - No significant overspends occurred in the year.
 - The vast majority of under-spends are identified and considered in terms of the base budget.
 - Where overspends occurred there is evidence that budget holders applied virement rules to recover those positions.
 - Year-end restraint and a responsible approach by budget holders are evident.
 - The budget process is tackled on a corporate basis. Cross directorate working and cooperation ensures any problems are corporately owned and effectively managed.
- 9.3 Whilst the current monitoring system has been in place for a number of years it is not perfect and therefore it is important that regular reviews are undertaken in order to learn from experiences and improve the process.
- 9.4 As part of that process my staff discusses year- end results with budget holders to identify how situations impact on the base budget. For example: -
- Are the under-spends sustainable and can they be reflected in budgets?
 - Is increased income 'one off' or can it be relied upon in future?
 - The outturn position is considered in preparing base budgets

10.0 Future Outlook

- 10.1 Financial stability is improving year on year and in contrast to past experience the council is able to manage volatile areas more effectively. A move to a corporate monitoring process has

Item no.

paid dividends and although staff savings and income windfalls have assisted the reserve position the underlying trends are positive. Budget overspends are less likely to occur and more recently there is a tendency to generate savings where possible. It is difficult to forecast how long that trend will continue particularly as external funding streams are come to an end.

10.2 The general fund although stabilising is still of concern in the longer term and whilst close to a balanced budget it is faced with some challenges which we should not lose sight of: -

- The effects of external funding withdrawal and mainstreaming.
- Potential implications from the ALMO inspection.
- The uncertainty of future central government revenue grant.
- The funding issues that will arise around the implementation of free travel as announced by the Government.
- Future running costs associated with E Government software implications.

10.3 The base budget for the HRA has stabilised following the review of housing subsidy. This should improve further when EDH delivers the improvements required to reach 2 star status.

10.4 In saying the above there is a changing agenda for local government and the emerging message from a financial perspective seems to be 'no more new money please improve your services and deliver change by making better use of your resources and by working with others.' The gershon efficiency agenda has been discussed in various forums and over the coming weeks the implications will be rolled out to ensure the issues are understood in time for the budget process.

10.5 In addition to the above the Audit Commission have identified value for money as a major inspection issue and they will require a self assessment covering the following areas: -

- Performance management – monitoring service delivery
- How well the council's overall and service costs compare with others taking account of local circumstances.
- Whether budgets reflect the council's policies/priorities.
- Whether procurement and spending decisions take account of full life costs.

10.6 The Value for Money assessment is an element of the overall test of Use of Resources, which also covers the following.

- Financial Management of resources
- Financial Standing
- Internal Controls

11.0 Conclusion

11.1 Although there is likely to be base budget issues in the coming years the overall position is fairly stable. Whilst the report advocates releasing a substantial level of reserves from general fund I'm comfortable with the position, hopefully the release may to some degree address some of the base budget issues and pump prime service improvements. The release should still leave a reserve of just below £3m which is substantially above the considered prudent level of £1.5m and whilst I intend reviewing this further members will appreciate that some of the issues outlined in paragraph 10.2 could pose significant threats to the Council's overall position and we may need capacity to manage those risks.

11.2 In terms of the HRA again the reserve position is strong following significant subsidy receipts. In terms of the base budget the review of subsidy generally will assist and the account is improving. However stock disposals will clearly affect future revenue streams, which will need to be offset by cost reductions. The Audit Commission has identified areas where efficiencies can be achieved and this will assist in sustaining this account for the future. The reserve position has been strengthened and whilst there are no proposals to utilise elements of the

Item no.

reserve at this point time I'm aware that EDH and the Council may face significant capacity issues to achieve 2 stars and the reserve position will assist that process.

12.0 Implications

12.1 Policy

None.

12.2 Legal

None.

12.3 Financial

The financial implications are set out in the main detail of the report.

12.4 Risk

The report is primarily for information and there are no material risks involved at this stage.

12.5 Communication

None.

12.6 Corporate

12.6.1 Corporate Plan and Priorities

None

12.6.2 Equality and Diversity

None

12.6.3 E Government

None

12.6.4 Procurement

None

13.0 Recommendations

13.1 Members are asked to note the content of the report in relation to the financial results for the year ended 31st March 2005 and endorse actions not itemised below.

13.2 To establish a Planning Reserve in order to ring-fence Planning Delivery Grant to meet future development issues. (£538k) (Para: 6.11)

13.3 To establish a Corporate Property Reserve to deal with issues in connection with Council's premises. (£250K) (Para: 6.11)

13.3 To agree to the transfer of additional subsidy and administration surpluses to the Benefits reserve as in previous years.

13.4 To agree in principle the use of £1.5m from the general reserve and to await a further report on utilisation. (Para: 6.8)

Background Papers

Item no.

Budget Report 2004/2005 - Extraordinary Council Meeting 25/2/2004
Budget Report 2005/6 – Extraordinary Council Meeting 25/2/2005
Cost Tabulations/Working Papers - Financial Management System 2003/4 & 2004/5
Budget Monitors - Financial; Management System
Correspondence from County Treasurer on Pensions
THB/outturn(DRAFTEXC)05072005

Appendix 1

EARMARKED RESERVES AT 31ST MARCH 2005

EARMARKED RESERVES	Received in Year £'000	Used in Year £'000	Movement in Year £'000	Opening Balance £'000	Closing Balance £'000
Revenue Reserves					
Insurance	847	(683)	164	2,898	3,062
Support Services Reserve	182	(210)	(28)	449	421
Benefit Reserve	292	(184)	108	199	307
Building Control	0	0	0	76	76
Planning	538	0	538	0	538
Social Inclusion	100	(24)	76	0	76
Communications Issues	100	(29)	71	0	71
Human Strategy	100	(27)	73	0	73
Best Value Review	40	0	40	0	40
Lottery Reserve		(19)	(19)	69	50
Corporate Property	250	0	250	0	250
Dowry Reserve	0	0	0	572	572
	2,449	(1,176)	1,273	4,263	5,536

Summary

It should be noted that the above reserves are earmarked by the Council for specific use.

Insurance Reserve

A number of years ago the Council decided to self-insure elements of risk. The necessitated the creation of a reserve to cover outstanding liabilities which have or will occur in the future. The fund is reviewed every 3 years and we have recently had the position updated and this will be reported in due course.

Support Service Reserve

This reserve has grown as a result of non-material savings from support services. It is prudent to retain a balance of around £125,000 but around £300,000 is usable. This reserve could be utilised from the roll out of the CRM. (Training/potential peak workload/change management issues). – for discussion.

Benefit Reserve

This reserve was created around 2/3 years ago for 2 main reasons. Year to year volatility in the subsidy system due to legislative changes and the treatment of elements of subsidy has in the past caused significant fluctuations (adjustments in 2003/4 reduced the reserve by £184,000). The creation of the reserve has taken pressure off general budgets smoothing out the volatility. In addition the benefits section from time to time has needed to carry out initiatives such as benefit take up campaign, the reserve helps provide capacity for those issues.

Item no.

Building Control

The Council is not permitted to make surpluses from building control fees. This reserve was created to fund extra capacity when required.

Planning Grant

The Council has received significant sums of Planning Delivery Grant and although this reserve shows a balance of £538,000 at the end of 2004/5 we have been notified that a further £430,000 will be received in the current. The grant is performance based.

Although the grant is not subject to ring fencing rules there are a number of issues relating to planning around shortage of staff, enforcement, e government and future planning requirements. The reserve is to tackle those issues and ensure performance is maintained. Members may recall previous staffing reports to be funded from this reserve.

Social Inclusion/Communications/Human Resource Strategy /Best Value Review

These reserves are initiative based and were agreed in the 2004/5 budget process.

Lottery Reserve

This reserve is committed to provide leisure facilities for the West of the District.

Corporate Property Reserve

Members will be asked to approve creation of this reserve to tackle issues relating to council premises.

Dowry Reserve

Committed for future environmental works following sale of industrial land.