

EXECUTIVE**On 14 June 2005**Report title: **Outturn**Report of: **Director of Finance****Ward(s) affected:** All**Report for:** Decision**1. Purpose**

1.1 To set out the revenue and capital outturn for 2004/05.

2. Recommendations

2.1 To note the service outturn set out at paragraph 7.1 for revenue and paragraph 7.3 for capital and the explanation of revenue variances in Appendix A.

2.2 To note the Housing Revenue Account outturn set out at paragraph 7.5.

2.3 To approve the carry forwards set out at paragraph 8.3 (and Appendix B) for revenue and paragraph 8.4 (and Appendix C) for capital.

2.4 To note that the outturn and, therefore, carry forward for schools is provisional and to delegate to the Director of Finance the finalisation of the carry forward.

2.5 To delegate to the Director of Finance authority to prepare the Council's financial statements such that the financial position of the Council is optimised.

2.6 To note that the Council's Financial Statements for 2004/05 are to be approved by General Purposes Committee.

2.7 To approve the recommended budget changes in section 9, including the establishment of an investment fund in the sum of £5m.

2.8 To consider the proposed investments in Appendix D, set against the Council's strategic context.

2.9 To note the treasury management outturn.

Report authorised by: Andrew Travers – Director of Finance

Contact officer: John Hardy – Chief Accountant
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3. Executive Summary

3.1 This report sets out the Council's service outturn for 2004/05, a surplus of £8.9 million, and recommendations for service carry forwards of £4.3 million. The report sets out the capital outturn, a net underspend of £9.8 million and proposed carry forwards of £10.6 million.

3.2 Taking into account adjustments previously reported through the budget management process, in overall terms the service outturn is in line with the agreed financial strategy.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

SAP outturn reports

Final Accounts working papers

For access to the background papers or any further information please contact John Hardy on 020 8489 3726.

6. Background

6.1 This report has four sections:

- service outturn – revenue and capital;
- carry forward proposals - revenue and capital;
- overall position, and;
- treasury management outturn.

7. Service outturn

7.1 The service outturn is shown in the following table. There is a net services underspend of £8.9 million. The variances are set out below by Directorate and explained in more detail in Appendix A. This includes an estimated underspend of £1.8 million on schools compared to the budget for 2004/05.

Directorate	Variance from budget £'000
Children's services (excluding schools)	(681)
Housing services	(8,219)
Social services: asylum	393
Social services: other	(532)
Environment	(432)
Finance	8
Chief Executive's	2,359
Sub total	(7,104)
Schools (see paragraph 8.2)	(1,800)
Total General Fund	(8,904)

7.2 In addition to the schools variation the position is broadly as expected with two significant exceptions:

- Homelessness – the underspend, at £8.2 million, is £2.3 million higher than the previously reported projection for the February monitoring exercise. This is a particularly volatile area, and previous projections have prudently reflected this uncertainty. Trends and final year-end figures have now been confirmed, and the outturn position is improved from that previously reported.
- IT services – a number of difficulties have been experienced with the implementation of the technology refresh project due to the scope and complex nature of the programme, and remedial action has taken place to mitigate against future risks going forward. As a consequence, however, additional costs of £2.9m have been incurred in 2004/05 net of the relevant provision in the sinking fund and change management budgets. The future additional costs going forward are dealt with in section 9 of this report.

7.3 The final capital programme was £106.2 million. The provisional overall underspend is £9.8 million, as set out in the following table:

Directorate	Budget	Outturn	Variance
	£'000	£'000	£'000
Children's services	36,997	33,240	(3,757)
Housing general fund	7,556	8,033	477
Housing revenue account	25,722	26,113	391
Social services	2,506	1,474	(1,032)
Environment	12,908	11,383	(1,525)
Finance	5,393	3,412	(1,981)
Chief Executive's	15,069	12,637	(2,432)
Total	106,151	96,292	(9,859)

The position is broadly as expected with three significant exceptions:

- Children's services – the previously reported projected underspend has reduced by £2.4 million as the service was successful in completing more work by the year-end. The £3.8 million remaining underspend relates mainly to grant funded projects where funding can be utilised in 2005/06.
- The Housing capital budget overspent due to significant demands of the programme that included additional RSL programmed spend and additional spend on refurbishment of voids. This overspend will need to be financed in 2005/06.
- The main reason for the underspend in Finance is slippage in the accommodation strategy spend, in particular the contractor becoming insolvent during the refurbishment of River Park House.

7.4 The Council's agreed capital programme for the period 2004/05 to 2007/08 is based on achieving usable capital receipts of £16 million in 2004/05. In the event £18 million has been generated, giving an uncommitted balance of £2 million.

7.5 The HRA outturn for the year was a deficit of £57k, against a target of break even. The working balance is, therefore decreased to just over £7 million at 31 March 2005, as shown in the following table:

	Budget	Outturn	Variance
	£'000	£'000	£'000
Income	96,803	97,142	(339)
Expenditure	96,803	97,199	396
Net Deficit / (surplus)	0	57	57
Working balance b/fwd 1 April 2004		7,068	
Working balance c/fwd 31 March 2005		7,011	

7.6 Significant variances within the HRA outturn include:

	Budget	Outturn	Variance
	£'000	£'000	£'000
Repairs	18,448	21,387	2,939
Capital financing	32,559	30,087	(2,472)
Interest on balances	(24)	(363)	(339)
Other	(50,983)	(51,054)	(71)
Net deficit	0	57	57

7.7 The repairs adverse variance is due to higher repairs volumes than anticipated, additional costs of new statutory duties, and increased construction related services costs.

7.8 Capital financing variance is due to a reduced capital financing requirement. Interest receivable is increased due to higher balances than budgeted for.

8. Carry forward proposals

8.1 The Council's Finance Procedure Rules provide for this body to determine any carry forward sums in respect of budget variations at the year-end. For this year, in view of the potential adverse impact on performance in 2005/6, it is proposed that no revenue overspend be carried forward.

8.2 In respect of underspends, the proposed revenue carry forwards are set out in the following table and analysis of these proposals is provided in Appendix B. The school balances are provisional. Almost all of the schools have completed their returns and the outstanding returns will be completed in early June. The underspend of £1.8 million shown for schools is that generated in 2004/05. Therefore the schools balances including the final brought forward balance from 2003/04 of £7.7 million are provisionally estimated at £9.5 million. It is recommended that finalisation of the schools carry forward is delegated to the Director of Finance.

8.3 Proposed revenue carry forwards are as follows.

Directorate	Proposed carry forward
	£'000
Children's services (excluding schools)	681
Housing services	215
Social services	532
Environment	381
Chief Executive's	682
Sub total	2,491
Schools	1,800
Total General Fund	4,291

8.4 Carry forward proposals have been put forward by services for **capital** which amount to £10.6 million. The requests relate to ring fenced resources and to schemes planned to be funded from capital receipts. It is recommended that the proposed carry forwards be approved. They are analysed in detail in Appendix C.

9. Overall position 2004/05 and issues for 2005/06

9.1 The overall net revenue services underspend and the proposed carry forwards give an aggregate general surplus on services of £4.6 million. The overall position is shown in the following table:

	£'000
Service surplus (as above)	(8,904)
Carry forwards (as above)	<u>4,291</u>
Net service surplus	(4,613)

9.2 It was noted at paragraph 7.4 that £2m additional capital receipts above the level required in the budget strategy were achieved in 2004/5. Noting that the refresh project constitutes expenditure which can be charged to capital, it is recommended that this additional resource is applied to reduce the reported overspend on this project. This will increase the service surplus at 31 March 2005 to £6.6m.

9.3 My report on reserves to the budget setting meeting of the Council in February noted that £10m was the appropriate target level for the general reserve. It was also noted that any underspend in 2004/5 was not committed at that time or required to meet the target level.

9.4 Members therefore need to consider the treatment of the surplus reported above. In so doing, it is first necessary to consider the cost of the refresh project going forwards. On the basis of re-planning action taken to date, the total gross budget requirement for the project is £19.1m over the three-year period (2003/4 to 2005/6), and an additional sum of £3.1m is required in 2005/6.

9.5 The implications of the 2004/5 outturn for the homelessness position in 2005/6 also need to be considered. As noted in previous budget reports, the government was considering tightening the subsidy regime, but in the event deferred any change to April 2006. Thus, the 2004/5 subsidy regime remains in place for 2005/6 and the homelessness budget was consequently reduced by £3m (£2m only of which was assumed to continue for 2006/7 and future years). In the light of the final position for 2004/5, it is appropriate to review the homelessness provision for 2005/6. This would indicate that a further £5m is available, however, there is a degree of risk associated with these homelessness projections arising from reconciliation and subsidy issues. Members will also wish to retain an element of flexibility to manage any overspending which may emerge during 2005/6. For these reasons, it is recommended that a contingency of £4m be set aside.

- 9.6 There is, in addition, a corporate change management budget of £0.5m available in 2005/6. The refresh project constitutes the most significant change management challenge faced by the Council, and it is recommended that this budget be treated as a resource for the refresh project.
- 9.7 Finally, and noting that any net service underspend in 2004/5 is currently uncommitted, Members may wish to consider the creation of an investment fund. The Council's financial strategy is based on the Community Strategy, the majority party manifesto, and the evolving CPA framework. On the basis of the matters set out in this report, a sum of £5m is available. Appendix D sets out potential investment opportunities based on the strategic context. Any investment fund item which has an on-going revenue commitment will lead, other things being equal, to an increase in the planned council tax level for 2006/7. Current planning is based on an increase of 2.5% for that year.
- 9.8 The financial position for 2005/6 can be summarised as follows:

	£'m
Revised surplus 2004/5 following refresh capitalisation	(6.6)
Homelessness saving 2005/6	(5.0)
Creation of contingency 2005/6	4.0
Change management budget 2005/6	(0.5)
Refresh additional requirement 2005/6	3.1
Investment fund	5.0
Net	(0.0)

- 9.9 The budget setting reports to Council in February 2005 set out a comprehensive assessment of financial risk factors and the adequacy of reserves in that context. That assessment included issues in respect of the homelessness budget. The approach set out in this report further develops the position in respect of homelessness expenditure for 2004/5 and 2005/6 (but retains the agreed position for 2006/7 and later years). I remain satisfied that reserves are adequate in the amended risk context.

10 Treasury management outturn

- 10.1 The Treasury Management Policy sets projections for treasury management activity for the forthcoming year as well as limits on borrowing and investment. The overall aim of the policy is to meet borrowing requirements at the lowest cost and maximise investment returns. The policy requires annual reporting of the outturn position.

Borrowing and Investment

- 10.2 The Councils borrowing strategy and funding requirement is determined by the maturity of existing debt, new borrowing to fund capital investment and amounts to be set aside from revenue and capital receipts. The estimated position for 2004/05 and the outturn position are shown in the following table:

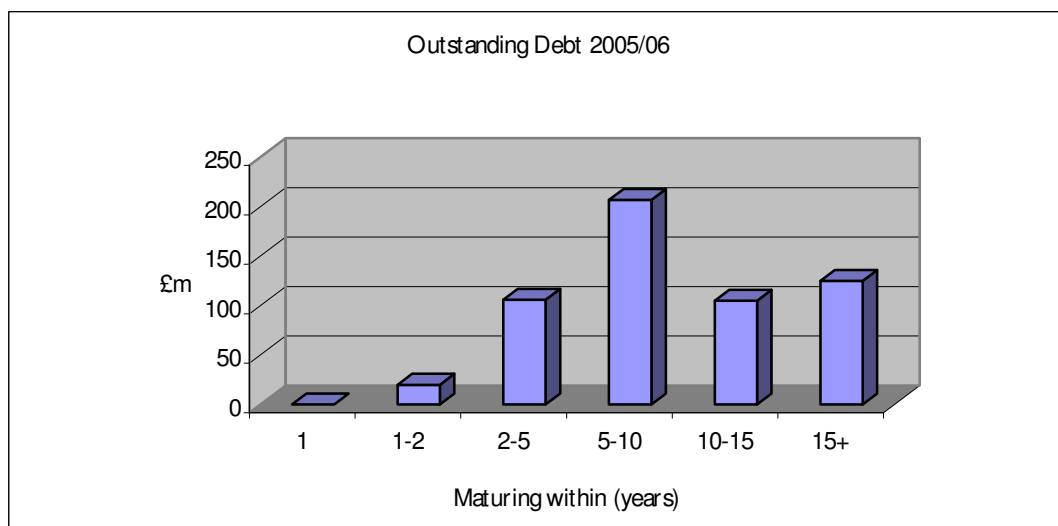
	Estimated position £m	Outturn position £m
Borrowing approvals	30	30
Principal repayment	0	0
<u>Less</u>		
Minimum revenue position	(8)	(8)
Usable capital receipts	(16)	(18)
Net Change	6	4

Indebtedness

- 10.3 The average level of debt in 2004/05 was £562m and the average level of investments was £50m. We have, therefore complied with the limits set out in the Council Treasury Management Policy. The limits and performance for 2004/05 were:

	Approved Limit	Actual performance
Overall borrowing	£620m	£562m
Short term borrowing	£40m	£0.5m
Proportion of debt at variable rates	30%	0

- 10.4 The average interest rate achieved on investments was 4.39%, compared with the average 7 day LIBID of 4.24%.
- 10.5 The average rate of interest on external debt (the Consolidated Rate of Interest) was 7.33%, in 2004/05, an improvement on the previous years 7.56%. This was due to lower use of temporary borrowing and the full year effect of the debt restructuring exercise undertaken in 2003/04.
- 10.6 The maturity structure of the Council's debt shows the earliest date at which debt can be redeemed without incurring early redemption penalties. The Treasury Management Practices require continual review of debt maturity to ensure that the optimal position regarding interest rates and redemption penalties is obtained. The current position is shown in the following graph.



11. Recommendations

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- 11.9 To note the treasury management outturn.

12 Legal Comments

- 12.1 The Head of Legal Services notes this report and confirms that all statutory and constitutional requirements are met.

13. Use of Appendices

Appendix A - Explanation of revenue variances
Appendix B - Revenue carry forwards
Appendix C - Capital carry forwards
Appendix D - Proposed investments