

EXECUTIVE

On 13 June 2006

Report title: **Financial outturn 2005/06**

Report of: **Acting Director of Finance**

Ward(s) affected: All

Report for: Decision

1. Purpose

1.1 To set out the revenue and capital outturn for 2005/06.

2. Introduction by Executive Member for Finance (Cllr Toni Mallett)

2.1 In overall terms the revenue service outturn is in line with the agreed financial strategy and it puts Haringey on a sound financial footing going forward and will allow us to work towards delivering our key priorities. There is a net revenue underspend £1.4 million, after proposed carry forwards of £2.1 million.

2.2 The report also sets out the capital outturn, which shows an underspend of £15.9 million of which £15.3 million is proposed to be carried forward. I will work closely with my Executive colleagues to see how we can deliver the capital programme more effectively during the year.

3. Recommendations

3.1 To note the service outturn set out at paragraph 8.1 for revenue and paragraph 8.5 for capital and the explanation of revenue variances in Appendix A.

3.2 To note the Housing Revenue Account (HRA) outturn set out at paragraph 8.7.

3.3 To approve the carry forwards set out at paragraph 9.3 (and Appendix B) for revenue and paragraph 9.5 (and Appendix C) for capital.

3.4 To utilise the additional £554k balance of usable capital receipts to finance the additional spend on Building Schools for the Future (BSF) preparatory work as set out at paragraphs 8.5 and 8.6.

- 3.5 To approve the funding proposals for the additional one-off costs of IS/IT infrastructure arrangements as set out in Section 10.
- 3.6 To note that the outturn and, therefore, carry forward for schools is provisional and to delegate to the Acting Director of Finance the finalisation of the carry forward.
- 3.7 To delegate to the Acting Director of Finance authority to prepare the Council's financial statements such that the financial position of the Council is optimised.
- 3.8 To note that the Council's Financial Statements for 2005/06 are to be approved by General Purposes Committee.
- 3.9 To note the treasury management outturn.

Report authorised by: Gerald Almeroth – Acting Director of Finance

**Contact officer: John Hardy – Head of Finance – Budgeting, Projects & Treasury
Telephone 020 8489 3726**

4. Executive Summary

- 4.1 This report sets out the Council's service outturn for 2005/06. Excluding schools this is a surplus of £3.5 million, and recommendations for service carry forwards of £2.1 million are made. The report sets out the capital outturn, a net underspend of £15.9 million and proposed carry forwards of £15.3 million.
- 4.2 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.

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

5.1 None

6. 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.

7. Background

7.1 This report has four sections:

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

8. Service outturn

8.1 The service outturn is shown in the following table. There is a net service underspend of £3.5 million. The variances are set out below by Directorate and explained in more detail in Appendix A. This excludes a provisional outturn for schools that reduces balances by £3.8 million to a level of £5.8 million at end of 2005/06 (see paragraph 9.2).

Directorate	Variance from budget £'000
Children's services (excluding schools)	(114)
Housing services	(2,085)
Social services	314
Environment	(847)
Finance	(19)
Chief Executive's	(580)
Non Service Revenue	(209)
Total	(3,540)

8.2 The joint pooled Primary Care Trust (PCT) Learning Disabilities partnership budget overspent by £331k in 2005/06 and this is excluded from the above table. This overspend will be carried forward to be funded against future years resources. The Children's Service outturn takes account of a contribution of £374k made towards the capital overspend on BSF (see paragraph 8.5).

8.3 It should also be noted that the full £1 million contingency set aside for the cost of asylum seekers over and above central government funding has been fully utilised. This was provided for and therefore does not appear as a variation in the above table.

8.4 In addition to the schools variation the position is broadly as previously reported with two significant exceptions:

- Environment – a balanced position was previously reported for the January monitoring exercise. An underspend of £0.8 million has arisen in respect of revenue funding for the parks first impressions capital project where works have slipped into 2006/07.
- Chief Executive's – a balanced position was previously reported for the January monitoring exercise. An underspend of £0.6 million is

now reported that results from a number of variations including delays in implementation of Phase II of the Leadership Programme, delays to some projects in the Area Assemblies, some increased external grant income and some salary underspends.

- 8.5 The final approved capital programme was £128 million. The provisional overall underspend is £15.9 million, as set out in the following table:

Directorate	Budget	Outturn	Variance
	£'000	£'000	£'000
Children's services	45,569	39,390	(6,179)
Housing general fund	4,663	4,237	(426)
Housing revenue account	24,743	23,740	(1,003)
Social services	4,721	3,132	(1,589)
Environment	22,631	19,521	(3,110)
Finance	5,055	2,652	(2,403)
Chief Executive's	20,546	19,381	(1,165)
Total	127,928	112,053	(15,875)

The projected underspend has increased since that reported in the January monitoring exercise for the following main reasons.

- **Children's services** – the previously reported projected underspend has increased by £3 million. This mainly relates to the 6th form centre construction where the previously reported underspend of £3.8 million has increased by a further £3 million due to delays in the commencement of the contract. In addition the ICT for schools projects has underspent by £0.6 million but is allowed to be spent by August 2006. Within the programme there are a number of overspends on specific funding streams as follows:

- Formulaic Funding - £1.3m

The 2005/06 programme has exceeded the revised budget for modernisation/new pupil places by £1.3m. This is due largely to expenditure originally anticipated in April/May 2006 being incurred earlier, specifically at the end of the 2005/06 financial year. There will need to be a review of the 2006/07 Children's Service capital programme, particularly the modernisation/new pupil place budgets, to ensure the 2006/07 works can be fully funded.

- Early Years - £692K

The Early Years capital budget was overspent in 2005/06 by £692k. A number of individual projects in the 2005/06 programme overspent including the Broad Water Farm Children's Centre. The overall overspend will be carried forward and will be fully funded from the 2006/07 Children's Service Capital Programme.

- Building Schools for the Future (BSF) - £928k

The BSF programme was over budget in 2005/06 due to the significant costs associated with the commencement of a project of this size. The overspend has been forecast and reported for the majority of 2005/06 and this can be partly funded by the Children's Service revenue underspend in 2005/06 of £374k. It is proposed that the difference of £554k is funded from corporate capital receipts, which is available (see paragraph 8.6). This is contrary to the current policy on allocation of capital resources and therefore is an exceptional item for Member's approval.

- **Social Services** underspend is mainly due to slippage on the Older People's community care residential strategy of £1.6 million and this is requested to be carried forward to 2006/07.
- **Environment** underspend has increased by £1.7 million mainly on externally funded projects where the resources can be carried forward to 2006/07.
- **Finance** underspend of £2.1 million is due to slippage on the following projects: £0.8 million Alexandra Palace project and £1.3 million on accommodation strategy projects (mainly Alexandra House refurbishment).
- **Chief Executives Service** – over optimistic programming on Tottenham High Road projects of £0.5 million. These external resources can be carried forward, however some are time limited and will need to be utilised in 2006.

8.6 The Council's agreed capital programme for the period 2005/06 to 2008/09 is based on achieving usable capital receipts of £10 million in 2005/06. In the event £10.5 million has been generated, giving an additional balance of £0.5 million. It is proposed that this is used to finance the additional spend on BSF preparatory work as highlighted above.

8.7 The HRA outturn for the year was a deficit of £2,801k, against a target of £2,613k. The working balance is, therefore decreased to just under £4.2 million at 31 March 2006, as shown in the following table. This is £188k below the planned level of balances.

	Budget	Outturn	Variance
	£'000	£'000	£'000
Income	(97,821)	(98,308)	(487)
Expenditure	100,434	101,109	675
Net Deficit / (surplus)	2,613	2,801	188
Working balance b/fwd 1 April 2005		6,961	
Working balance c/fwd 31 March 2006		4,160	

8.8 Significant variances within the HRA outturn include:

	Budget	Outturn	Variance
	£'000	£'000	£'000
Repairs & maintenance	20,206	21,853	1,647
Housing subsidy	(23,438)	(22,575)	863
Provision for Bad Debts	649	1,028	379
Supervision & management	18,944	20,015	1,071
Contingency	3,632	0	(3,632)
Other	(17,380)	(17,520)	(140)
Net deficit	2,613	2,801	188

- 8.9 The repairs adverse variance is due to higher repairs volumes than anticipated, additional costs of new statutory duties, additional contractors' costs and increased construction related services costs as previously reported. These pressures will need to be contained in 2006/07 if the medium term HRA financial plan is to be adhered to.
- 8.10 The housing subsidy variance is due to a reduced subsidy for capital, and provision for over-claimed subsidy as a result of changes in the consolidated rate interest.
- 8.11 The provision for bad debts variance is due to a nominal decrease in the rent collection rate caused by the absence of a rent suspension exercise in 2005/06 and a review of the provision.
- 8.12 The supervision and management variance reflects the costs of set-up of and transition to the ALMO.
- 8.13 The contingency variance reflects the budget reserve established to provide for the adverse forecast variances.

9. Carry forward proposals

- 9.1 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 2006/07, it is proposed that no revenue overspend be carried forward other than the joint PCT pooled budget of £331k.
- 9.2 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 still provisional. The expenditure of £3.8 million shown for schools is that generated in 2005/06 above the in year budget. Therefore the schools balances including the final brought forward balance from 2004/05 of £9.6

million are provisionally estimated to reduce to £5.8 million. It is recommended that finalisation of the schools carry forward is delegated to the Acting Director of Finance.

9.3 Proposed revenue carry forwards are as follows.

Directorate	Proposed carry forward
	£'000
Children's services (excluding schools)	114
Housing services	455
Environment	847
Chief Executive's	722
Total	2,138

9.4 As explained in paragraph 8.2 the joint pooled Primary Care Trust (PCT) Learning Disabilities partnership budget overspent by £331k in 2005/06. This overspend will be carried forward and be funded against future years resources and is excluded from the above table.

9.5 Carry forward proposals have been put forward by services for **capital** which amount to £15.3 million. The requests largely 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. On Children's Services overspends as set out in section 8.5 will need to be funded in 2006/07.

10. Overall position 2005/06 and issues for 2006/07

10.1 The overall net revenue services underspend and the proposed carry forwards give an aggregate general surplus on services of £1.4 million. The overall position is shown in the following table:

	£'000
Service surplus (as above)	(3,540)
Carry forwards (as above)	<u>2,138</u>
Net service surplus	(1,402)

10.2 There is a concurrent report on this agenda to consider the updated position on the **Council's IS/IT infrastructure arrangements**. The Executive had previously agreed to a negotiated exit from the current infrastructure contract at its meetings on 20 December 2005 and 18 January 2006. There are additional one-off costs arising from the implementation of this, which are covered in more detail in the concurrent report, but are broadly:

	£'000
<ul style="list-style-type: none"> • Delay arising from re-opening of negotiations in Dec 2005 • Actual costs of legal settlement with previous supplier above the contingency sum allowed • Costs arising from the approach of the former supplier • Additional items not allowed for • New contingency sum 	<p>810</p> <p>440</p> <p>970</p> <p>170</p> <p>500</p>
Total	2,890

- 10.3 It is recommended that this is funded from the net revenue surplus reported above of £1.4 million and the remainder from use of balances. The budget setting report to the Council meeting on 20 February 2006, where the reserves policy was agreed, noted that £10m was an appropriate target level for the general reserve. Over the financial planning period this level is expected to be exceeded by £3 million and therefore there is sufficient flexibility to fund these one-off costs without impacting on services. The budget setting report also set out a comprehensive assessment of financial risk factors and the adequacy of reserves in that context. The statutory section 151 officer, in consultation with myself, remain satisfied that reserves are adequate in light of these changes.

11. Treasury management outturn

- 11.1 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

- 11.2 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 2005/06 and the outturn position are shown in the following table:

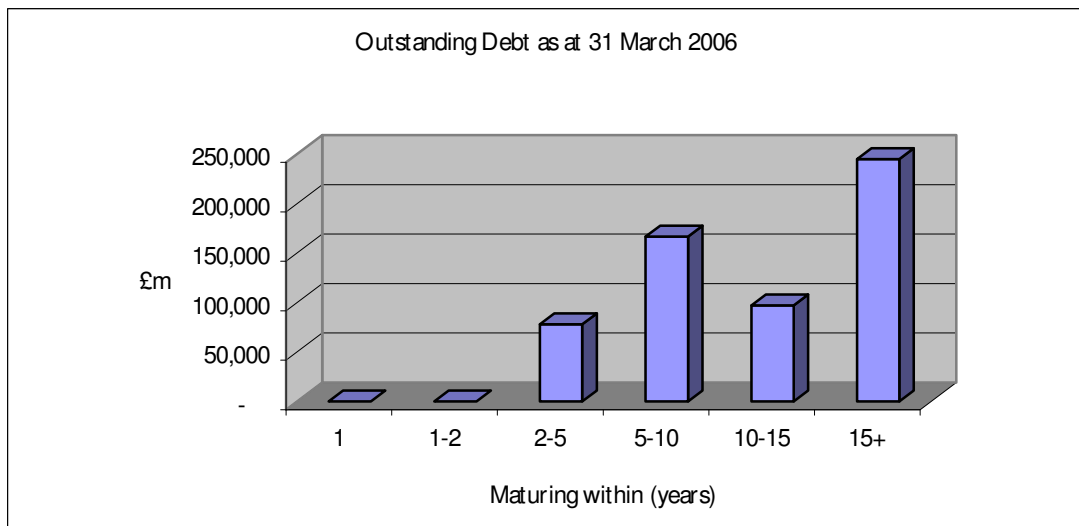
	Estimated position £m	Outturn position £m
Borrowing approvals	22	22
Principal repayment	0	0
<u>Less</u>		
Minimum revenue position	(10)	(10)
Usable capital receipts	(16)	(16)
Net Change	(4)	(4)

Indebtedness

- 11.3 The average level of debt in 2005/06 was £584m and the average level of investments was £52m. We have, therefore complied with the limits set out in the Council Treasury Management Policy. The limits and performance for 2005/06 were:

	Approved Limit	Actual performance
Overall borrowing	£647m	£584m
Short term borrowing	40%	1%
Proportion of debt at variable rates	30%	0

- 11.4 The average interest rate achieved on investments was 4.66%, compared with the average 7 day LIBID of 4.62%.
- 11.5 The average rate of interest on external debt (the Consolidated Rate of Interest) was 7.35% in 2005/06 compared with 7.33% for the previous year.
- 11.6 The maturity structure of the Council's debt as at 31 March 2006 is shown in the graph below. The Treasury Management Practices require continual review of debt maturity to ensure that the optimal position regarding risk profile, interest rates and redemption penalties is obtained.



12. Recommendations

- 12.1 To note the service outturn set out at paragraph 8.1 for revenue and paragraph 8.5 for capital and the explanation of revenue variances in Appendix A.
- 12.2 To note the Housing Revenue Account (HRA) outturn set out at paragraph 8.7.
- 12.3 To approve the carry forwards set out at paragraph 9.3 (and Appendix B) for revenue and paragraph 9.5 (and Appendix C) for capital.
- 12.4 To utilise the additional £554k balance of usable capital receipts to finance the additional spend on Building Schools for the future (BSF) preparatory work as set out at paragraphs 8.5 and 8.6.
- 12.5 To approve the funding proposals for the additional one-off costs of IS/IT infrastructure arrangements as set out in Section 10.
- 12.6 To note that the outturn and, therefore, carry forward for schools is provisional and to delegate to the Acting Director of Finance the finalisation of the carry forward.
- 12.7 To delegate to the Acting Director of Finance authority to prepare the Council's financial statements such that the financial position of the Council is optimised.
- 12.8 To note that the Council's Financial Statements for 2005/06 are to be approved by General Purposes Committee.
- 12.9 To note the treasury management outturn.

13. Legal Comments

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

14. Use of Appendices

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