

CABINET

On 19 June 2007

Report title: **Financial Outturn 2006/07**

Report of: **Acting Director of Finance**

Ward(s) affected: All

Report for: Decision

1. Purpose

1.1 To set out the provisional revenue and capital outturn for 2006/07.

2. Introduction by Cabinet Member for Resources (Cllr Charles Adje)

- 2.1 In line with agreed financial strategy, this report sets out the Council's Financial Outturn for 2006/07 by directorate. The report identifies a revenue surplus of £2.946m and proposes its utilisation. It further identifies a capital underspend of £6.9m with a carry forward proposal of £6.6m and complies with Treasury Management policy.
- 2.2 The report also provides the opportunity for the purchase of a site enterprise licence from SAP, which would deliver ongoing efficiency savings and service benefits. It proposes funding investment through the Local Authority Business Growth Initiative, (LABGI) grant.
- 2.3 I commend the report and the recommendations as set out in paragraph 15 to Cabinet for approval.

3. Recommendations

- 3.1 To note the provisional service outturn set out at paragraph 8.1 for revenue and paragraph 8.9 for capital. To note also the explanation of revenue variances in Appendix A and capital variances in Appendix B.
- 3.2 To approve the contingency of £1 million for Asylum and the setting up of a Sustainable Investment fund with a one-off resource of £0.5 million.
- 3.3 To note the Housing Revenue Account (HRA) outturn set out at paragraph 8.11.
- 3.4 That the revenue carry forward proposals set out at paragraph 9.2 (and Appendix C) be

approved.

3.5 That the capital carry forward proposals set out in paragraph 9.6 (and Appendix D) be agreed.

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 2006/07 are to be approved by General Purposes Committee.

3.9 To agree the virements set out in section 13.

3.10 To note the treasury management outturn.

3.11 To approve the use of grant as set out in section 14 subject to Procurement Committee decision.

Report authorised by: Gerald Almeroth – Acting Director of Finance

**Contact officers: Kevin Bartle, Acting Head of Corporate Finance
John Hardy – Head of Finance – Budgeting, Projects & Treasury
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4. Executive Summary

4.1 This report sets out the Council's service provisional outturn for 2006/07. The outturn is based on Directorates prior to the Council's Re-shaping that is effective from 1 April 2007. Excluding schools and Dedicated Schools Grant (DSG) there is a surplus of £2.946m. It is proposed to utilise this to set up a £1 million contingency for asylum costs in 2007/08, to set up a Sustainable Investment fund of £0.5m and for the remainder to fund the carry forward requests as set out. The report also sets out the capital outturn, an underspend of £6.9m and services have proposed carry forwards of £6.6m.

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 five sections:

- service outturn – revenue and capital;
- prioritised carry forward proposals – revenue and capital;
- overall position;
- provisions and contingent liabilities;
- treasury management outturn, and;
- financial administration.

8. Service outturn

8.1 The general fund **revenue service outturn** is shown in the following table. The outturn is based on Directorates prior to the Council's Re-shaping that is effective from 1 April 2007. There is a net service underspend of £2.946m. The variances are explained in more detail in Appendix A. The overall reported underspend on general fund expenditure (including DSG) is 0.7% of the total net budget.

Directorate	Variance from budget £'000
Children and Young People's Service (excluding schools and DSG)	(80)
Asylum Seekers	778
Housing Services	(15)
Social Services	(176)
Environment	(422)
Finance	(281)
Chief Executive's	(1,313)
Sub-total – all services	(1,509)
Non Service Revenue	(1,437)
Total	(2,946)

8.2 This excludes a provisional outturn for schools that reduces balances by £0.2m to a level of £5.6m at the end of 2006/07 (see paragraph 9.4) and an underspend of £1.3m against the Dedicated Schools Grant (DSG) (see paragraph 9.3).

- 8.3 The joint Primary Care Trust (PCT) Learning Disabilities pooled budget overspent by £42k in 2006/07 and this is excluded from the above table as the overspend will be carried forward to be funded against future years' resources.
- 8.4 It should also be noted that the existing £1m contingency set aside for the cost of asylum seekers over and above central government funding has been fully utilised and the residual overspend noted above is after use of this contingency.
- 8.5 The period 11 position reported to Executive in April was a projected underspend of £1.1m. This outturn against services is broadly in line with that with a slightly higher total £1.5m underspend. The significant variation overall is that against the non-service revenue account at a total of £1.4m and the main reasons are set out below:
- £0.5m in respect of the IT In-sourcing project. The in-source project has recently closed and the final delivery of the project, together with successful management of the risks during the process, have meant that the approved contingency of £0.5 million has not been required;
 - £0.4m in relation to the service development/contingency fund. This budget of £1.6m was agreed in the Council budget report in February 2006. Executive approved that this was to be partly utilised to balance the cost pressures in Social Services this year;
 - £0.5m in respect of capital financing. The approved budget included a significant revenue contribution to fund capital expenditure in 2006/07 and the expected final position on capital is that this is unlikely to be fully required.
- 8.6 The overall general fund revenue outturn position shows a surplus of £2.946m above the net budget. This can be utilised as a one-off resource going forward and I therefore propose its use in the following way:
- there is a risk of the **asylum seekers** budget overspending in 2007/08 and a strong risk of claw back of subsidy from challenge by the Home Office. It is proposed to allow £1m as a contingency;
 - that a **Sustainable Investment fund** of £0.5m is set up. This should work on a bidding basis for invest to save schemes and the revenue saving created should initially top the fund back up by the amount invested. This would allow some early progress on the green agenda, a key Council priority, in particular where investment in energy efficiency projects can generate a financial as well as environmental return, and;

- the balance of £1.446m can be used to meet the **carry forward requests** as summarised in section 9 of this report.

- 8.7 The reported revenue outturn position includes the previously agreed position in respect of the pension fund deficit costs for Alexandra Palace. At a previous meeting, the Executive agreed to fund the one-off pension fund deficit costs in 2006/07 in order to facilitate the proposed development of **Alexandra Palace** on a long lease to Firoka. This deal was not finalised by 31 March 2007.
- 8.8 In addition there is a substantial **housing benefits** claim, in particular, in respect of homelessness. The position is still to be finalised before the claim deadline. It is proposed that any additional estimated grant above budget should be added to the reserve in respect of potential claw-back subsequent to the audit of the housing benefits subsidy claim.
- 8.9 The final approved **capital programme** was £114.4m. The overall provisional underspend is £6.9m, as set out in the following table: -

Directorate	Budget	Outturn	Variance
	£'000	£'000	£'000
Children and Young People's Service	52,304	53,205	901
Housing General Fund	3,222	2,135	(1,087)
Housing Revenue Account	18,136	18,033	(103)
Social Services	6,322	5,658	(664)
Environment	17,600	15,812	(1,788)
Finance	4,147	3,797	(350)
Chief Executive's	12,667	8,870	(3,797)
Total	114,398	107,510	(6,888)

The projected underspend has increased by £0.7m since that reported in the February monitoring exercise. Detailed explanations of the variances are set out in Appendix B. The majority of the variations relate to delays in the progress of schemes. This will need to be an area of focus for improvement in 2007/08.

- 8.10 The Council's agreed capital programme for the period 2006/07 to 2010/11 is based on achieving usable capital receipts of £11m in 2006/07. The final position is that £14.1m has been generated, giving an additional balance of £3.1m. This is largely in respect of the higher amounts achieved through the sales of Cooperscroft and Trentfield. These additional resources have already been committed as approved by Members during the year.
- 8.11 The **HRA outturn** for the year was a variance of £641k, against a surplus target of £114k. The working balance is decreased to just over £3.8m at 31 March 2007, as shown in the following table, after taking account of application of reserves and inclusion of provisions.

Item	Original Budget £'000	Outturn £'000	Variance £'000
Income	(100,689)	(100,555)	134
Expenditure	100,575	101,196	621
Net Deficit / (surplus)	(114)	641	755
Working balance b/fwd 1 April 2006		(4,383)	
Application of Housing Subsidy Reserve		(885)	
Provision for Homes for Haringey		795	
Working balance c/fwd 31 March 2007		(3,832)	
Planned closing balance as at 31 March 2007		(3,878)	
Variation in closing balance		46	

The overall position is very close to the plans approved at Council in February 2007 and the closing balance only varies by £46k.

- 8.12 Significant variances within the HRA against the original budget include:

	Budget £'000	Outturn £'000	Variance £'000
Rent income	(60,707)	(61,350)	(643)
Increase in provision for bad debts	699	1,553	854
Leaseholders' Service charges	(6,429)	(5,827)	602
Other income	(11,587)	(12,243)	(656)
Housing subsidy	(21,966)	(21,135)	831
Other expenditure	99,876	99,643	(233)
Net expenditure	(114)	641	755

- 8.13 Income from dwelling rent charges is greater than budget mainly due to the significantly greater than anticipated reduction in 'right to buy' (RTB) sales during the year. However, this is offset by an additional provision for tenants' bad debt being required of £854k due to lower performance in the rent collection rate of 96.5% compared to the budgeted 97.5%. Focussed effort will be required from Homes for Haringey in 2007/08 to collect these arrears and improve the in year collection rate.
- 8.14 Leaseholders' Service Charge income is less than budget due in part to the reduction in RTB sales, and in part due to a lower than anticipated benefit from the reduction in provision for leaseholders' bad debts.

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 2007/08, it is proposed that no revenue overspend be carried forward.
- 9.2 The net amount available to meet carry forward requests is £1.446m. Services have proposed and prioritised revenue carry forwards and high priority requests are able to be funded from this sum. The high priority requests are summarised in the table below and set out in full at Appendix C.

Directorate	Proposed carry forward £'000
Children and Young People's Service (excluding schools)	42
Housing Services	50
Social Services	176
Environment	275
Chief Executive's	894
Total	1,437

- 9.3 The above table excludes the £1.355m carry forward that will be funded from DSG. The DSG underspend was reported in the February monitoring exercise; two key non-schools budgets funded by the Dedicated Schools Grant (DSG) have underspent by £1.3m. This is principally made up of £0.7m to support the Every Child Matters Multi Agency budget that is unspent at the year end and £0.5m being set up costs for the Sixth Form Centre required in 2007/08. Any balance of **DSG funding is required to be carried forward under legislation** and will be needed to meet future commitments.
- 9.4 The school balances are still provisional. The expenditure of £0.2m shown for schools is that generated in 2006/07 above the in-year budget. Therefore the schools' balances, including the final brought forward balance from 2005/06 of £5.8m, are provisionally estimated to reduce to £5.6m. It is recommended that finalisation of the schools' carry forward is delegated to the Acting Director of Finance.
- 9.5 As explained in paragraph 8.3 the joint pooled Primary Care Trust (PCT) Learning Disabilities partnership budget overspent by £42k in 2006/07. This overspend will be carried forward and be funded against future years resources and is excluded from the above table.
- 9.6 Carry forward proposals have been put forward by services for **capital** which amount to £6.6m. It is recommended that all carry forwards, which are analysed in detail in Appendix D, are approved. The

Children and Young People's Service overspend will be funded in 2007/08.

10. Overall general fund position 2006/07

10.1 The overall net revenue services underspend provides a surplus of £2.946m. After the proposed utilisation as set out in this report the general fund shows a near balanced position. This is summarised in the following table:

	£'000
2006/07 general fund revenue surplus	(2,946)
Less Asylum contingency	1,000
Less Sustainable Investment fund	500
Less funding of high priority carry forward requests	1,437
Net service surplus	(9)

11. Provisions and contingent liabilities

11.1 An accounting requirement is for the Council to consider any areas where it feels there is a potential future liability. Depending on the certainty of this liability and information on the value of the liability, the Council will either raise a provision for this liability or disclose a contingent liability in the notes to the accounts. All areas for **provisions and contingent liabilities** have been reviewed and the following new liabilities have been raised in the accounts:-

- A provision for the potential non-payment by the Home Office of the Authority's asylum seeker grant, for 2006/07 cases where there may be a dispute. The provision raised is for £312k.
- A contingent liability note will be disclosed for a potential Home Office claw back in relation to disputed prior year asylum grant claims. The Home Office may additionally claw back grant for years as far back as 2002/03 but the extent of this possibility is as yet unknown, therefore not enabling a provision to be raised.

12 Treasury management outturn

12.1 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

- 12.2 The Council's 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 2006/07 and the outturn position are shown in the following table:

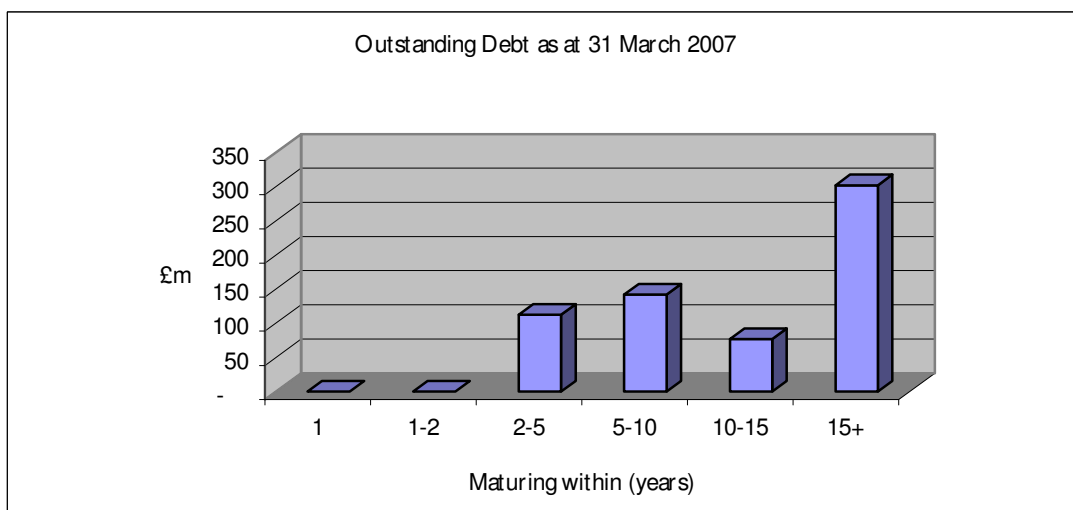
	Estimated position £m	Outturn position £m
Borrowing approvals	18	18
Principal repayment	0	0
<u>Less</u>		
Minimum revenue position	(10)	(10)
Usable capital receipts	(11)	(14)
Net Change	(3)	(6)

Indebtedness

- 12.3 The average level of debt in 2006/07 was £613m and the average level of investments was £87m. We have, therefore complied with the limits set out in the Council Treasury Management Policy. The limits and performance for 2006/07 were:

	Approved Limit	Actual performance
Overall borrowing	£650m	£613m
Short term borrowing	40%	0.02%
Proportion of debt at variable rates	30%	0

- 12.4 The average interest rate achieved on investments was 4.99%, compared with the average market rate of 4.61%.
- 12.5 The average rate of interest on external debt (the Consolidated Rate of Interest) was 7.26% in 2006/07 compared with 7.35% for the previous year.
- 12.6 The maturity structure of the Council's debt as at 31 March 2007 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.



13. Financial administration

13.1 Financial regulations require proposed budget changes to be approved by Executive. These are shown in the table below. These changes fall into one of two categories:

- budget virements, where it is proposed that budget provision is to be transferred between one service budget and another. Explanations are provided where this is the case;
- Increases or decreases in budget, generally where notification has been received in-year of a change in the level of external funding such as grants or supplementary credit approval.

13.2 Under the Constitution, certain virements are key decisions. Key decisions are:

- for revenue, any virement which results in change in a directorate cash limit of more than £250,000; and
- for capital, any virement which results in the change of a programme area of more than £250,000.

Key decisions are highlighted by an asterisk in the table.

13.3 The following table sets out the proposed changes. Each entry in the table refers to a detailed entry in the appendices, which show the budgets that it is proposed to change. There are two figures shown in each line of the table and the detailed sheets. The first amount column relates to changes in the current year's budgets and the second to changes in future years' budgets (full year). Differences between the two occur when, for example, the budget variation required relates to an immediate but not ongoing need or where the variation takes effect for a part of the current year but will be in effect for the whole of future years.

13.4 Proposed virements are set out in the following table:

Period	Service	Key	Amount current year (£'000)	Full year Amount (£'000)	Description
13	HRA	HRA	64		Costs of the Noise Nuisance service to be reflected as a Managed Budget rather than as part of the Management Fee, as these relate to services provided by Environment under an SLA.
13	HRA	HRA	1,087		Cost and income of the management and repair of HRA Hostels to be reflected as a retained budget rather than include in management fee as services are delivered by Housing over which Homes for Haringey have no remit.
13	HRA	HRA	2,940		Part of the costs of Supported Housing to be included as a retained budget (for the supporting people funded welfare element) and managed budgets (for the emergency response and out of hours elements provided by the Council under a SLA).
13	HRA	HRA	939		Costs of insurance to be reflected as a retained budget (in respect of insurance of tenanted stock) rather than as part of the management fee (where employee related insurance will continue to be funded).
13	HRA	HRA	1,032		Costs of Housing Strategy, Lettings and Waiting List Management to be reflected as retained budgets rather than part of the management fee as provided by Housing, and Homes for Haringey has no management role.
13	HRA	HRA	12		Costs of the administration of Right to Buy Mortgages service to be included in the management fee budget rather than a retained budget, as this contract is cliented by Homes for Haringey.
13	Children	Cap*	3,455		Crowland Fire Reinstatement

13	Children	Cap*	372		Increased allocation for NRF funding
13	Children	Cap*	371		PFI variations charged to schools
13	Children	Cap*	(2,427)		Correction of budget for Plevna
13	Chief Executives	Cap*	(874)		Neighbourhoods UCCG project spend that is non Haringey spend
13	Environment	Cap	75		Section 278 funding for Hornsey High Street project

14. Other Issues

14.1 An opportunity has arisen in discussions with SAP to purchase a site enterprise licence. The current licensing structure is based on a limited number of users and flat rate costs are incurred for every additional user licence. A site licence would be extremely beneficial in terms of expanded use of the modules of the system, which in turn would deliver further ongoing efficiency savings and service benefits. This would also enable the Council to meet the aims in the IT strategy of rationalising the number of applications. An upfront investment would be required for this. The proposal is that a business case for contract award is presented to Procurement Committee for decision.

14.2 It is recommended that the funding source for this investment is the Local Authority Business Growth Incentive (LABGI) grant. When the council tax was set at the Council meeting on 19 February 2007 the LABGI figure was not known and therefore it was agreed that any sum received should be added to balances. £1.4m was received and it is proposed that this is the source of funding that it is used. Prudential borrowing is an option, however, under this route the full efficiency savings delivered as a result of the investment can then be added to the budget process.

15. Recommendations

15.1 To note the provisional service outturn set out at paragraph 8.1 for revenue and paragraph 8.9 for capital. To note also the explanation of revenue variances in Appendix A and capital variances in Appendix B.

15.2 To approve the contingency of £1m for Asylum and the setting up of a Sustainable Investment fund with a one-off resource of £0.5m.

15.3 To note the Housing Revenue Account (HRA) outturn set out at paragraph 8.11.

15.4 That the prioritised revenue carry forward proposals set out at paragraph 9.2 (and Appendix C) be approved.

15.5 That the capital carry forward proposals set out in paragraph 9.6 (and Appendix D) be agreed.

15.6 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.

15.7 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.

15.8 To note that the Council's Financial Statements for 2006/07 are to be approved by General Purposes Committee.

15.9 To agree the virements set out in section 13.

15.10 To note the treasury management outturn.

15.11 To approve the use of grant as set out in section 14 subject to Procurement Committee decision.

16. Legal Comments

16.1 The Acting Head of Legal Services notes the report and confirms that all statutory and constitutional requirements are met.

17. Use of Appendices

Appendix A - Explanation of significant revenue variances

Appendix B – Explanation of significant capital variances

Appendix C - Revenue carry forward requests

Appendix D - Capital carry forward requests