

REVENUE OUTURN 2006/07

- 1.1 Appendix 2 outlines the Council's provisional financial position for the 2006/07 financial year. Despite a number of major pressures during 2006/07, the provisional outturn shows the budget has been managed in total with a small underspend/surplus. Before any carry forward the Council underspent by £314,000 against the budget for the year, this equates to 0.3% of the Council's net revenue budget for 2006/07. This compares to the figures last reported to the Executive in March of a £476,000 over spend. This figure excludes the Local Authority Business Growth Incentive Scheme (LABGIS) grant received in March 2007 of £1.101m. This increases the net revenue underspend to £1.415m.
- 1.2 Underlying this "bottom line" figure are a number of variations (at a Directorate level):
- Service overspends of £2.7m
 - Service underspends of £1.4m
 - The net overspend at Directorate level being offset by a £1.6m underspend on Corporate and Agency budgets mainly related to capital financing costs and investment income.
- 1.3 The major pressures (transport and children's services) were identified early in the first quarter monitor in 2006/07 as emerging issues. As part of the second quarter monitor the magnitude of the major pressures was identified with the potential overspend being managed within the overall budget by a prudent estimate of savings within capital financing costs. While the scale of some of the pressures varied over the third quarter, there was close monitoring of capital spending to ensure the Council would manage within its budget without recourse to reserves which, in part, were based on the risks which emerged during 2006/07. The monitoring also enabled the emerging issues to be reflected, in part, in the budget for 2007/08.
- 1.4 The opportunity has also been taken at this early stage in the financial year to assess the ongoing implications of the provisional outturn on 2007/08 which nevertheless does require Strategic Directors to take some action to contain ongoing pressures from 2006/07 within the 2007/08 budget as well as achieving planned savings for 2007/08.
- 1.5 The explanations for the variations are given in Appendix 3 and some are highlighted below.
- 1.6 The main area contributing to the underspend relates to capital financing costs. As part of managing potential service pressures highlighted in 2007/08 additional capital receipts were generated towards the end of 2006/07. In line with its treasury management

strategy the Council took out its full years borrowing requirement in September 2006 due to attractive PWLB interest rates. These factors, together with lower capital expenditure commitments occurring in 2006/07 than previously forecast, has meant the Council achieved additional income from interest on surplus cash balances. More details are provided in the Treasury Management Outturn report (Appendix 9).

- 1.7 The main areas of over spending have occurred in the Transport & Highways, Sustainability & the Environment and Children's Services Portfolio's. There are under spends in all the other Portfolios. However there are wide variations between services within those broad headings.
- 1.8 Only two Strategic Directors' areas do not show a net under spend. These areas are Customer Services and Children's Services. The Council Solicitors area also shows a net overspend. The reasons for this position are outlined in table 5 of Appendix 4.

CAPITAL OUTTURN

- 1.9 At the 7th March meeting of the Executive a revised programme of £50.539 million was approved for 2006/07. The revised programme at outturn totalled £53.204m, the changes in the programme since the March report are listed in Appendix 6 and are reflected in Appendix 5.
- 1.10 Spend to the 31st March totalled £43.353million (£67.337million including the grant funded Stone Mines and Single Regeneration Budget expenditure). This represents a spend against budget of 81.5% (or 73.5% of original budget plus additions, after £5.8m which was re-phased to 2007/08 as part of rebasing the programme in February 2007).
- 1.11 Details of the outturn position are given in Appendix 5.
- 1.12 All capital scheme under and over spends from 2006/07 will be reviewed by the Council's Section 151 Officer and any carry forward requests that require further scrutiny will be reported to the Projects Programme Board by July for agreement. This process was introduced for the outturn in 2005/06 to tighten the process and make sure that all carry forwards are justified.

CURRENT SPENDING – IMPLICATIONS FOR 2007/08

- 1.13 The first monitoring report for the current year will now be presented to the Cabinet in September. Monthly reports will be circulated to Cabinet members from June onwards for both revenue and capital expenditure.

1.14 The 2006/07 outturn implies some £1.8m of overspends may continue into 2007/08. There will also be an underspend in capital financing costs from the reduced Minimum Revenue Payment (MRP) for debt repayment in 2007/08 of approximately £360,000 in respect of the lower capital spend incurred in 2006/07 as well as additional investment interest earned on cash balances, however to the extent that capital projects will eventually spend to budgeted levels this is not an on-going saving. It is also unlikely the other 2006/07 underspends will be repeated to offset these overspends. The main on-going pressures are:

Pressures	2007/08 Budget Adjustments made in respect of specific items £'000	Pressure above 2007/08 Budget assumptions £,000
Concessionary Fares	400	500
Parking (net of actions already identified)	-1,500	500
Waste	0	50
Children's Placements	380	125
Trading Accounts	0	400
Legal & Democratic costs	0	90
Capital Recharges	0	150
Total		Up to 1,815

1.15 If these overspends are not addressed it could lead to an overspend in 2007/08. This would be in addition to any unrealised corporate efficiency savings or service savings planned for in 2007/08.

1.16 Strategic Directors and Assistant Directors are preparing robust action plans to address both pressures on-going from 2006/07 and savings required in 2007/08. These plans, and progress against the plans, will be reported to the Cabinet in September 2007 and will be closely monitored throughout the 2007/08 financial year.

USE OF UNDERSPEND TO MAKE EARMARKED RESERVES

1.17 The Cabinet may wish to take this opportunity to make the following provision within balances for potential costs which could arise during 2007/08 and which are not allowed for in the budget agreed during February 2007:-

- Continuing Health Care – potential claims against charges levied to Social Service Clients - £100k.

DECISIONS REQUIRED RELATING TO OVER AND UNDER SPENDS

- 1.18 Decisions are needed on some of the items in Appendix 4 relating to under and over-spending in 2006/07. Each section of Appendix 4 is clearly marked for information or for decision. In particular, decisions are required in tables 4 and 5 of Appendix 4. If all these items are approved, this would give a final under spend of £227,000 (or an underspend of £1,328,000 inclusive of LABGIS grant). After allowing for the earmarked reserves referred to in paragraph 1.17 the amount returned to unearmarked balances would be £1,228,000.
- 1.19 In taking the LABGIS grant into reserves, it should be noted that there have been substantial amounts spent over the last two years on developing a vision for the area and specific projects to stimulate the local economy.
- 1.20 If any further provisions are created the amount returned to unearmarked balances would reduce accordingly.
- 1.21 Table 5 of Appendix 4 contains requests to write off overspends as an exception to the Budget Management Scheme rules which would require recovery by service over a maximum of 3 years. The write-offs are requested as it is not considered practical to recover these overspends against the continuing risk of overspending in 2007/08 and future years. Further details on the reasons for write-off requests are detailed in the Appendix.

REVENUE & CAPITAL RESERVES

- 1.22 A statement of revenue balances is included as Appendix 8. This was also reported in February 2007 at the time of budget setting and has been updated for known changes (these are highlighted in the appendix in the “changes” column). If the requests shown in recommendations 2.1 are approved by the Council Executive the overall situation would be as follows:

Description of the Revenue Reserves Movements	£k
Estimated Reserves 1 st April 2007 before outturn movements (February Budget Report 2007)	5,778
LABGIS Grant addition to reserves	+1,101
Additional Use in carry forward of under spends, creating provisions and write-off of overspends (recommendations 2.1)	+127
Transfer from IT Provisions (para 1.25)	+680
Other changes to reserves since February 2007	+88
Remaining available reserves would then be	7,774
<i>Estimate reported in Budget Report 2007/08 (Council 20th Feb 2007) – including provision of net £400k drawdown for 2006/07 outturn</i>	5,378
<i>Recommended optimal level based on corporate risk assessment, to be achieved by 2009/10</i>	9,000

1.23 As a result the Council is £2.4m ahead of the reserves strategy outlined in the budget report to Council on 20th February 2007. However this should be balanced with the potential overspend risks highlighted in 2007/08 in paragraph 1.14.

1.24 In setting demanding budget targets, the Council requires Strategic Directors to review the risks within their budgets. The Section 151 Officer then makes a judgement on the level of reserves required to cover these risks. In general, the major overspends in 2006/07, were captured in the Director's Reviews of the Robustness of their budgets made in January / February. This includes catering, commercial estate income, planning, children's services, learning disabilities and mental health. However, in some areas the risks were not reflected in the reviews, notably building engineering, concessionary fares, access in children's services and recharges from revenue to capital. The Directors Reviews for 2007/08 are currently being updated for changes in circumstances in 2007/08 and in the light of the 2006/07 outturn.

1.25 The Council's budget report for 2007/08 (Council 20th February 2007) set out the creation of an Exceptional Risk Reserve to cover against a number of potential financial risks facing the Council. Additional capitalisation of items previously funded from revenue in 2006/07 has allowed a reduction in use of provisions to fund the reserve, this has allowed an amount of £680,000 to be transferred from unused IT provisions to general reserves. The revised funding of the reserve is shown in the following table:

Updated measures to create exceptional risk reserve - 31 March 2007

Measure	Feb Budget Report £'000	Revised Actual Funding £'000
Additional capitalisation from 2005/06	521	521
Additional capitalisation in 2006/07	650	1,597
Fund items from capital and release ear-marked reserves: Systems provision £71k Lambridge P&R Fund £427k Costs & Rate Refunds £358k	1,817	856
Ring fenced capital financing underspend 2006/07	700	700
PSA grant – accrued to 2006/07	900	914
Total proposed for exceptional risk reserve	4,588	4,588

1.26 The capitalisation of revenue also requires budgets to be re-allocated to match revised spend, the virements required are reported for approval in Appendix 6 & 7.

Capital Resources

1.27 The last estimated figure for capital receipts (reported to the Executive in the 2007/08 budget report in February) assumed Right to Buy (RTB) sales of £2m from Somer Housing Association and General Fund sales of £15.384m, giving estimated receipts of £17.384m. Actual receipts achieved, net of costs, were RTB sale receipts of £2.186m and General Fund receipts of £17.288m. The net position on capital receipts was £19.474m, £2.090m above the target.

1.28 We are also required to report to you how the 2006/07 programme is to be financed (including the £23.984m of grant funded Stone Mines and SRB expenditure). This is as follows:

	£'000
Total Capital Spending:	67,337
Funded by:	
Supported Borrowing	8,120
Capital Receipts	17,100
Capital Grants	32,160
3 rd Party Receipts	3,949
Capital Reserves	0
Revenue	100
Unsupported Borrowing	5,908
	67,337

- 1.29 As reported to February Council, the Council received notification from the Department of Communities and Local Government (DCLG) in early February that it had been granted approval to treat up to £2m of the back pay element of single status costs as capital rather than revenue expenditure. £2m of capital receipts have been reserved to fund the capitalisation pending the finalisation of a reliable estimate of the amount of the backpay obligation.
- 1.30 The capital element of the PSA reward grant has been used to reduce unsupported borrowing in the financing of 2006/07 capital expenditure.