

**Manchester City Council
Report for Resolution**

Report To: Executive – 27 June 2012
Subject: Revenue Outturn Report 2011/12
Report of: City Treasurer

Summary

The report outlines for Members the final outturn position for the General Fund for 2011/12. It includes details of service budget variances and requests for carry forward of under-spends or none carry forward of over-spends. The report also seeks approval for transfers to provisions to meet future potential costs not previously approved by Executive.

Subject to the approval of Executive, the proposed transfers to provisions will be included in the draft Annual Accounts to be submitted for approval by the City Treasurer at the end of June and to be reported to the Audit Committee on 12 July 2012.

Recommendations

The Executive is recommended to:

1. Note the overall General Fund outturn position for 2011/12 as outlined in section 2 and the Directorate outturn positions against cash limit budgets as shown in the table at paragraph 3.2
2. Note the Housing Revenue Account position for 2011/12 as outlined in section 6
3. Approve the Treasurer's recommendation that no over spends be carried forward as a call on 2012/13 budgets
5. Approve the requests for carry forward of underspends as identified in Appendix 1 including delegated authority to the City Treasurer in consultation with the Executive member for Finance and Human Resources to hold centrally the amounts identified in Appendix 1 and make a final decision in 2012/13 depending on the services respective 2012/13 budget positions.
6. Approve the proposed new reserves and additional transfers to provisions and reserves as identified in paragraph 5.
7. Approve the establishment of a reserve of £3,255m for Soccerex from the LABGI reserve balance of £2,313k and a transfer from the Economic initiatives reserve of £942k as detailed in paragraph 5.9.

Wards Affected: None directly

Community Strategy Spine	Summary of the contribution to the strategy
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Performance of the economy of the region and sub region	Not applicable
Reaching full potential in education and employment	Not applicable
Individual and collective self esteem – mutual respect	Not applicable
Neighbourhoods of Choice	Not applicable

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Provision has been made for known liabilities, whilst maintaining reserves to meet significant future costs at a reasonable level. The level of General Fund balances will, be affected by any decision to carry forward underspends as identified in Appendix 1. If all recommendations in Appendix 1 are accepted the City Treasurer can confirm that this will still leave the Council in a robust financial position going forward.

Financial Consequences – Capital

There are no consequences for the capital budget.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact the ACE (Finance and Performance) – details as above.

The Approved Revenue Budget 2011/12
Working Papers – 2011/12 Consolidation

1.0 Introduction

- 1.1 This report presents the General Fund outturn for the financial year 2011/12. Members should note that the figures may be subject to change until the audit of the accounts is completed in September, however, it is not expected that any major amendments will emerge.
- 1.2 The report looks first at the global outturn position, followed by the outturn against Directorates cash limited budgets. It also sets out the main changes from the last monitoring report submitted to Executive in February.
- 1.3 The draft accounts are to be reported to the Audit Committee on 12th July 2012.
- 1.4 In accordance with International Standard of Auditing (IAS) 260, any unadjusted non-trifling miss-statements identified in the accounts during the audit have to be reported back to the same Committee by the External Auditors before the opinion can be issued. This Committee will take place on 27 September.

2.0 General Fund Out-turn

- 2.1 The revised budget for 2011/12 assumes a contribution to the General Reserve of £1.998m. The actual outturn position is for a contribution to the General Reserve of £2.772m. This represents an under spend across all budgets of £774k. If the requests for carry forwards are approved this changes the position to a small overspend of £346.2k
- 2.2 This would leave a balance on the General Fund Reserve at 31 March 2012 of £24.43m. Note, if the carry forward requests are approved this would be a first call on the reserve reducing it by £1.12m to £23.31m. The budget for 2012/13 approved by Executive in February 2012 forecast a balance on the reserve at 31 March 2012 of £23.743m.
- 2.3 The table below shows the components of the total under spend. It excludes the requests for carry forwards.

	Revised Budget 2011/12 £'000	Outturn 2011/12 £'000	Final Variance 2011/12 £'000	Variance as reported in February £'000
<u>Planned Resources Available</u>				
Settlement (RSG + NNDR)	354,275	354,275	0	0
Council Tax	142,588	142,588	0	0
Specific Grants	80,022	80,022	0	0
Dividends and Contributions	5,840	5,840	0	0
Planned Funding from Reserves	2,754	2,754	0	0
Total Available	585,749	585,749	0	0
<u>Planned use of Resources</u>				

Directorate Cash Limits	500,162	494,662	(5,500)	(2,854)
Corporate and Cross Cutting Issues:				
Levies	34,879	34,879	0	0
Capital Financing Costs	48,564	46,588	(1,976)	(2,000)
Contingency	1,039	1,039	0	0
Costs not yet allocated	3,290	1,290	(2,000)	(2,000)
Corporate Savings (Procurement / Housekeeping / AGMA)	0	0	0	0
Cross cutting savings	(1,347)	(197)	1,150	534
Changes to contributions to provisions and specific reserves	0	7,662	7,662	3,900
Other Adjustments	0	(110)	(110)	(163)
Transfers from / (to) General Fund Reserve from other reserves	(3,106)	(3,106)	0	0
TOTAL CORPORATE AND CROSS CUTTING	83,319	88,045	4,726	271
NET ESTIMATED REQUIREMENTS	583,481	582,707	(774)	(2,583)
Net Call from/ (to) General Fund Reserve	(1,998)	(2,772)	(774)	(2,583)

2.4 The additional contributions to provisions and reserves are detailed in paragraph 5. More detail on the Capital Financing Charges and Contingency variations is included in section 4 below.

2.5 The global revenue monitoring report that went to Executive on 15 February 2012 (based on spend to the end of December 2011) projected a variance of £2.583m. The final outturn position is a reduced underspend, mainly due to adjustments required to reserves and provisions, partially offset by an improvement in the directorates position.

3.0 General Fund Directorate Variances

3.1 The table below sets out the year end position for each Directorate against their cash limit (income and expenditure controlled by the Directorates) budget. Overall there was an underspend of £5.5m which compares to the projected underspend of £2.854m reported to the Executive in February. The increase in underspend reflects reductions in spend, including the level of vacancies held, in order to achieve the full year savings targets for 2012/13. It does not take account of the additional transfers to reserve and provisions in Adults, Children's and Core Services which are set out later in this report.

3.2 The Directorates' controllable expenditure excludes capital financing costs and central departmental recharges.

Strategic Directorate	Revised Budget 2010/11	Outturn 2010/11	Over/ (under) spend Variation	Variation as reported to Exec in February

	£'000	£'000	£'000	£'000
Directorate for Adults	163,381	165,515	2,134	1,293
Children's Services	154,639	150,808	(3,831)	(2,277)
Corporate Core	75,460	71,588	(3,872)	(2,970)
Neighbourhood Services	104,336	104,405	69	1,100
Expenditure funded by New Homes Bonus	2,346	2,346	0	0
	500,162	494,662	(5,500)	(2,854)

- 3.3 Over spends against budgets in one year can, at the discretion of Executive, be transferred in to the following year and act as a first call against the budgets for that year. It is the Treasurer's recommendation that overspends in 2011/12 are not transferred forward, but are met from the overall under spend in services. It is recognised that all Directorates are facing challenging budgets for the next two years and transferring overspends from 2011/12 in to 2012/13 would make the situation more difficult.
- 3.4 Heads of Service are allowed to request Executive to carry forward managed underspends in one year to support one off expenditure in the following year. A number of requests to carry forward under spends have been considered by the Revenue Gateway Group. Appendix 1 includes details of the requests supported by the Revenue Gateway Group for approval by Executive. Approval to carry forward underspends will be a call on the General Fund Reserve balance in 2012/13.
- 3.5 Further details of the variances against budget for each Directorate are shown below:

Directorate of Adults

- 3.6 The Directorate for Adults, Health and Wellbeing has a final overspend for 2011/12 of £2.134m which is an increase of £841k from the forecast in February. The increase is due to Homecare expenditure being £100k higher than projected and continued pressure on budgets to support people with Learning Disabilities. There has been an increase both in the number of clients and in the complexity of their cases. Additional funding has been allowed for demographic growth in 2012/13.

Children's Services

- 3.7 The budgets have underspent by £3.831m. This mainly relates to the early achievement of 2012/13 savings, largely due to staff leaving earlier than expected as part of VER/VS and underspends from a reduction in the numbers and cost of placements for Looked After Children (LAC). The increase in the underspend from the February report is largely due to the Early Years service where property related costs were less than anticipated and further utilisation of a funding from the Dedicated Schools Grant (DSG).

Corporate Core

- 3.8 The Corporate Core is forecasting an underspend of £3.872m, of which £2.520m relates to Corporate Services and £1.352m to Chief Executive's. This is an increase of £902k on the previously reported position. The underspend largely relates to staffing, both from early achievement of savings and the level of vacancies. It has increased since February, due to increased levels of staffing savings, increased rental income from the City Council commercial property portfolio and from an increased underspend in communications achieved by amongst other things, utilising more cost effective channels of communication.

Neighbourhood Services

- 3.9 An overspend of £1.1m had been forecast mainly due to in year pressures from The Manchester Engineer and Design Company (MEDC) resulting from the reduced Highways Capital programme and an overspend on Leisure due to reduced income. The reduced underspend is due to careful management of expenditure, particularly during the final quarter of the year and adjustments identified as part of the close down process. The outturn figure shown includes:-

- An underspend on the Waste levy of £272k based on the latest estimates received from GMWDA.
- Business Units – A £200k provision for liabilities that was determined to no longer be necessary.
- A year end review of the bad debt provision has enabled £388k to be released.

4.0 General Fund Corporate Budgets and Crosscutting Savings

- 4.1 Capital Financing Costs (the costs in interest etc. of servicing the Council's debt) has underspent against budget by £2m. This is predominantly due to the continuing low cost of borrowing, and the fact no new borrowing has been required due to a lower than expected capital spend and the continued utilisation of internal borrowing from cash reserves.
- 4.2 There remained at the end of the year £2m unspent within the Central Contingency. This relates to £500k set aside to deal with any unforeseen costs which might have arisen from the Waste Levy, £539k unallocated contingency and lower than expected costs for the Carbon Reduction Tax due to a change in school funding regulations which allow the costs associated with schools to be funded by DSG.
- 4.3 Cross Cutting savings of £6.55m were planned to be achieved across the two years. The forecast position in 11/12 is an underachievement of £1,150k against the £2.544m target due to slippage on the corporate property review and contract review savings.

5.0 Transfers to and from General Fund Reserves and Provisions

- 5.1 The Council maintains a number of reserves and provisions. Provisions differ from Reserves in that a provision is made to meet a known future commitment

where the cost of the commitment can be reasonably estimated. A reserve is money put aside to meet future expenditure which is either discretionary or cannot currently be reasonably estimated.

5.2 Approval is sought to establish the following new reserves and provisions in 2011/12:

- NW Construction Hub Reserve - £199k. The capital programme manages the NWCH, other LA's pay a fee to use the service and the income is used to cover the cost of retendering every three years.
- Corporate Services Reserve - £720k to cover potential backdated liabilities.
- Land Charges Reserve - £125k has been set aside in a reserve and £475k in a provision in relation to potential back dated liabilities following changes nationally.
- Ancoats Square Reserve - £1.95m has been received from HCA to cover the revenue costs of maintaining Ancoats Square for a period of at least 25 years therefore this will be placed in a reserve and the required funds drawn down each year.
- Fleet Maintenance Reserve - £552k to a smoothing reserve which has been set up to equalise income and expenditure over the 7 year contract.
- Taxi Licensing Reserve - £139k to a smoothing reserve to equalise the income and expenditure of running the function over financial years.
- A sum of £135k in respect of a number of small potential liabilities.

5.3 The following transfers to provisions and reserves not planned for within the budget have been actioned within the accounts to be presented to the Audit Committee on 12 July. These total £7.662m as included in the table at 2.3, Executive are asked to approve these transfers for inclusion:

- An additional contribution from the Revenue Account to the compensation provision of £2.634m based on the number of outstanding claims, the likelihood of these claims being settled and an estimation of the level of settlement.
- Whilst the recovery rate of outstanding debt has significantly improved within Adult services, changes arising from the implementation of fee increases has required an increase to their provision of £700k. In addition a review of the general bad debt provision indicated an increase of £245k was required.
- Additional contribution to bad debt provision for deferred property charges for residential care of £700k, correcting a historic under estimate of the provision required.
- A contribution to the Cleopatra reserve of £1.250m and the provision of £875k
- A contribution to the land charges reserve of £125k and provision of £475k as referred to above.
- A contribution of £720k to the Corporate Services reserve as referred to above.
- A release from the manual workers frozen holiday pay provision of £62k

- 5.4 The paragraphs below provide information on the movements on some of the key reserves whose movements are normally reported to Executive as part of the Budget process.
- 5.6 **The Parking Reserve:** The revised budget for 2011/12 assumed that there would be a net call on the reserve of £1.260m made up of a contribution to the parking reserve from the surplus from on-street parking of £3.625m and utilisation of £4.885m to fund contributions towards the cost of various environmental and highway improvements (£4.25m) and other one off schemes (£635k). The actual surplus from on street parking enforcement transferred into the fund was above target at £4.145m and the use of the reserve was lower then budgeted at £4.801m. The balance on the fund at 31 March 2012 was £2.755m compared to a budgeted £2.151m.
- 5.7 **Bus Lane Enforcement Reserve:** Income received from enforcement of Bus Lanes has to be treated in a similar manner to on street parking enforcement income in that it has to be transferred into a reserve that can only be used for specific purposes. The balance on this reserve stood at £1.228m at 31 March 2011. The actual surplus transferred in to the reserve was £0.651m and the reserve was used to fund Metroshuttle (£655k) and other approved schemes (£178k) leaving a balance on the reserve at 31 March 2012 of £1.046m compared to a budgeted balance of £1.109m.
- 5.8 **Service Improvement Fund:** The balance on the Service Improvement Fund at the 31 March 2011 was £3.61m. Actual spend in 2011/12 was £1.295m compared to a revised budgeted spend of £1.593m. The spend has been for agreed ICT infrastructure investment (£949k) including for the SAP upgrade and investment in the council's CRM system and various Crime and Disorder projects (£346k). This leaves a balance on the fund of £2.315m to meet the balance of the commitments for Crime and Disorder and ICT investment.
- 5.9 **LABGI Reserve (to be renamed Soccerex):** In 2008/09 the Council agreed that £5.5m of LABGI money received would be put into a reserve to be utilised over the following years to fund a number of regeneration projects. Additional LABGI monies received after 2008/09 have also been added to the reserve. The balance on the reserve at the 31 March 2011 was £2.588m. In 2011/12 £275k has been spent on Soccerex European Forum (2010-13).

It is proposed that this reserve is renamed Soccerex and a transfer made from the Economic Initiatives reserve of £942k, making a 2011/12 closing balance of £3.255m. As approved in the 2012/13 budget and reported to Executive, this will fund the initial payment of £1.4m for the World Soccerex initial payment and £275k for the final installment of the European Soccerex. The balance of £1.580m will fund the annual payments for World Soccerex of £395k to be paid for 4 years (2014-15 to 2017/18).

6.0 The Housing Revenue Account (HRA)

- 6.1 The final outturn position for the HRA is an overall surplus of £5.007m in 2011/12 against a budgeted surplus position of £4.208m, an underspend of £799k.
- 6.2 A summary of the major in year variations contributing to the surplus of £799k is identified in the table below and details are set out in the following paragraphs:-

<i>Income/Spend Area</i>	<i>Variance 2011/12 £m</i>
<i>Increased Rental Income</i>	<i>(0.454)</i>
<i>Reduced Housing Subsidy Income</i>	<i>2.728</i>
<i>Reduced VAT Shelter Credits</i>	<i>0.294</i>
<i>Communal Heating Termination</i>	<i>0.713</i>
<i>PFI Contractor Payments</i>	<i>(0.739)</i>
<i>Supervision and Management</i>	<i>(1.373)</i>
<i>Debt Management/ Bad Debts</i>	<i>(0.269)</i>
<i>Interest Payable</i>	<i>(2.139)</i>
<i>RCCO</i>	<i>0.400</i>
<i>Other (net)</i>	<i>0.040</i>
<i>TOTAL</i>	<i>(0.799)</i>

- 6.3 *Income* - Due to a lower than anticipated level of void properties rental income exceeded budgeted levels by £454k. The subsidy received from government was some £2.728m less than originally envisaged, £2.644m is due to the reduced cost of capital arising from a lower consolidated rate of interest (CRI) across the authority's borrowing portfolio which is offset significantly by a reduction in the actual spend on interest payable (see later paragraph). Other changes to the subsidy were a £384k reduction as a result of the Brunswick PFI scheme not commencing in 2011/12 as anticipated and a net £300k increase from the self financing settlement.

Income from VAT Shelter credits totalled £5.215m which is £294k less than the original budget and is largely due to lower than anticipated levels of expenditure by the RSL partners. This income is set aside within the Residual Liabilities reserve to mitigate potential future liabilities in relation to transferred stock.

- 6.4 *Expenditure* – As stated previously the Brunswick PFI scheme did not commence in 2011/12 and this contributed to the underspend in year of £739k. Supervision and Management underspent by £660k, due to a number of underspends across the service offset, in part, by costs arising from the termination of the Alexandra Park heating contract. The changes to the arrangements for heating should see savings arising in future years.

The ongoing low interest rates has resulted in the net spend in this area being £2.139m less than was originally forecast of which £2.276m is due to a reduction in the interest payable (based on the lower CRI), offset by £137k

less interest receivable. The interest charges are reflected within the level of subsidy. A revenue contribution to capital expenditure was made during 2011/12 of £400k.

- 6.5 Reserves and Balances – the table below sets out the position on HRA reserves as at 31st March 2012.
- 6.6 The residual liabilities fund is included below; this was established to meet potential warranty commitments following stock transfers particularly in relation to Environmental Works. Work is currently ongoing to review the level of reserve which should prudently be set aside to meet potential risks in excess of the insurance arrangements already in place.
- 6.7 The overall HRA reserves position as at 31 March 2012 is as follows:

	£000
General Reserves Available	2,208
Earmarked reserves for Residual Liabilities	20,084
Total available Reserves (Excl PFI's)	22,292
Ardwick PFI	14,189
Heating PFI	1,711
Miles Platting PFI	16,389
Brunswick PFI	2,199
Total PFI Reserves	34,488
TOTAL RESERVES	56,780

7.0 Prudential Indicators

- 7.1 Prudential Indicators were introduced as part of the prudential borrowing regime which replaced the former controls on borrowing through credit approvals. Each year the Council sets various indicators as part of the budget process and then monitors throughout the year that these indicators are not breached. The table below indicates the final performance against the indicators relevant to the Revenue out-turn.

No.	Prudential Indicator		Target 2011/12	Actual 2011/12	Target Breached Y/N
1	Financing Costs to Net Revenue Stream	Non – HRA	8%	8%	N
		HRA	18%	17%	N
2	Capital Financing Requirements (as at 31 March)	Non – HRA	£900m	£663m	N
		HRA	£500m	£122m	N
		Total	£1,400m	£785m	N

8.0 CONCLUSION

- 8.1 Overall the under-spend against the Council's budgets has meant that the contribution to the General Fund Reserve would be £2.772m, £774k higher than budgeted for. This is before the requests for carry forwards totalling £1.12m are taken into account. If these are approved the General Fund reserve will be at £23.31m.
- 8.2 The position varies from that reported to Executive in February mainly due to the impact of additional contributions to key reserves and provisions to meet future liabilities and concerted action by Directorates to make savings in preparation for the difficult financial position facing the Council going forward.
- 8.3 Decisions made to allow the carry forward of any budget underspends as identified in Appendix 1 will be a call on the General Fund Reserve in 2012/13. When approving any carry forwards full consideration needs to be taken of the high level of savings built in to the 2012/13 budget and the risk that these represent.

APPENDIX 1

Request to Carry Forward Budget Under Spends

A number of requests have been received for consideration by the Revenue Gateway Group. The group has examined these requests to ensure that there is valid justification. Attached below are details of the requests received which are recommend for consideration by Executive, these total £1,120,159 (£574,159 of which will be allocated to budgets and £546,000 to be retained centrally and allocated to the respective budget subject to the in year financial position).

Corporate Property - Collyhurst & LIV – New Homes Bonus £175,000

£270k was allocated to the Revenue budget in 2011/12 from the New Homes Bonus Grant of £2.6m. The complexities of the procurement process has caused £175k of this spend to slip to 2012/13,

Regeneration - Empty Homes £172,700

This is a continuation of the funding to complete the initial 12 month programme for the Empty Homes Team and would be funded from a carry forward of the Corporate Core underspend

CEX – Cash grants £92,459

Cash grants are allocated by ward which have annual allocations dependant on deprivation. There is an understanding that these allocations are not subject to a year end cut of point

Neighbourhood Services – Flood and Water Management £134,000

The City council has received £134k in 11/12 increasing to £217k from 2012/13 onwards. Planning and collaboration with other AGMA Authorities has occurred later then anticipated resulting in this year's allocation not being spent.

It is recommended the following are carried forwards and held corporately with delegated authority given to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to determine if the budget should be allocated, in light of budget position in 2012/13.

CEX – MTV crashes – Special Events project £125,000

This income has come from the Manchester wheel in 2011/12 and was to have been allocated to as a direct payment to MTV to facilitate the project development. The project will now be delivered in Sept 2012 and this payment made in April 2012. Delivering this event will put Manchester in a positive position to secure the European Music Awards in 2014.

Children's Services - Youth Fund £281,000

20 month contracts were awarded in August 2011 - £1.2m budget has been committed over two years with £281k falling into 2012/13
There is a possibility this could be achieved within Children's Services budgets however this would be dependant on LAC numbers remaining stable which is a high risk area.

Children's – Training Budgets

£140,000

Work has been underway since July 2011 to meet the anticipated turnover rate of qualified Social Work staff through development of a programme to support internal staff to qualify whilst remaining in work at MCC over a three year period.

The costs for this development are estimated to be up to £700k relating to training costs and costs of placing staff in a Grade 5 role with a training bursary yet to be agreed. The first year has the most significant costs and it is requested to carry forward the 2011/12 underspend on the Workforce Development budget of £140k. This would enable the project to minimise the pressure on the Children's Services budget for 2012/13.