

Report of the Deputy Chief Executive

Appendix A

Report to Executive Board

Date: 16th December 2015

Subject: Financial Health Monitoring 2015/16 – Month 7

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The purpose of this report is to inform the Executive Board of the financial health of the authority in respect of the revenue budget and the Housing Revenue Account (HRA).
2. The 2015/16 financial year is the second year covered by the 2013 Spending Review and again presents significant financial challenges to the Council. In terms of the medium-term financial strategy, it is clear that the Government's deficit reduction plans will extend through to at least 2019/20, with the announced reductions in public expenditure meaning that further savings will be required. Executive Board received a report outlining the Council's 2016/17 to 2019/20 Financial Strategy at its October meeting.
3. Executive Board will recall that the 2015/16 general fund revenue budget provides for a variety of actions to reduce spending by £45m. It is clear that action is taking place across all areas of the Council and also that significant savings are being delivered in line with the budget. However, after 7 months of the financial year the year-end forecast is for an overall overspend of £4m which represents an adverse movement of £0.65m compared to the previous month. The key pressures continue to be in the demand-led budgets and specifically those supporting children in care.
4. At the end of month 7 the HRA is projecting a surplus of £134k.

Recommendations

5. Members of the Executive Board are asked to note the projected financial position of the Authority for 2015/16.

1. Purpose of this report

- 1.1 This report sets out for the Executive Board the Council's projected financial health position for 2015/16 together with other key financial indicators.
- 1.2 Budget management and monitoring is a continuous process throughout the year, and this report reviews the position of the budget after 7 months of the financial year and also comments on the key issues impacting on the overall achievement of the budget for the current year.

2. Background information

- 2.1 Executive Board will recall that the net budget for the general fund was set at £523.78m, supported by the use of £1.45m of general fund reserves.
- 2.2 The balance of general reserves at April 2015 was £22.3m and when taking into account the budgeted use of £1.45m in 2015/16 will leave an anticipated balance at March 2016 of £20.9m.
- 2.3 Financial monitoring continues to be undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. In 2015/16 we have reinforced this risk-based approach with specific project management based support and reporting around the achievement of the key budget actions plans.

3. Main Issues

- 3.1 At month 7 of the 2015/16 financial year a forecast year-end overspend of £4m is projected as shown in the table below.

Directorate	Director	(Under) / Over spend for the current period				Previous Month (under)/over Spend
		Staffing	Total Expenditure	Income	Total (under) /overspend	
		£000	£000	£000	£000	£000
Adult Social Care	Cath Roff	(2,724)	(547)	577	30	19
Children's Services	Nigel Richardson	(1,901)	4,836	(419)	4,417	3,632
City Development	Martin Farrington	(1,090)	(31)	(138)	(169)	(116)
Environment & Housing	Neil Evans	(2,252)	364	(1,705)	(1,341)	(1,378)
Strategy & Resources	Alan Gay	(1,720)	(1,496)	1,485	(11)	(89)
Citizens & Communities	James Rogers	(376)	3,417	(3,740)	(323)	(104)
Public Health	Dr Ian Cameron	(500)	(2,263)	2,641	378	410
Civic Enterprise Leeds	Julie Meakin	591	737	(422)	315	315
Strategic & Central	Alan Gay	0	(372)	1,061	689	642
Total Current Month		(9,972)	4,645	(660)	3,985	3,331

3.2 The key issues are outlined below and further information is shown in the financial dashboards at appendix 1.

3.2.1 **Adult Social Care** – overall, the Directorate is currently projecting a balanced position by the financial year-end. There have been some minor changes across the main budget heads since month 6 but the bottom-line projection is unchanged. There are some risks associated with this projection, mainly relating to the activity levels within the community care budget and progress over the coming months in delivering key budget action plans. Some slippage and likely non-achievement of planned savings has been identified on some of the most challenging budget action plans. Although there is slippage in delivering the specific actions for savings of £2.7m within the community care packages budget this has been largely offset by savings through continued careful management of care plan approvals. £1m relates to revenue funding for community intermediate care beds from health which is now unlikely, but contingency plans are being developed and the projection assumes that these will offset the shortfall. The current projection is for shortfalls of £1.2m in the budgeted saving from reviewing grants and contracts with third sector providers and £0.4m on transport. Slippage of £0.7m on the charging review will occur as any changes will not now take place before April 2016. These pressures are largely offset by projected underspends on staffing, further details of which are outlined financial dashboard at appendix 1.

3.2.2 **Children's Services** – the Directorate is forecasting an overall year-end overspend of £4.42m or 3.6% of the net managed budget. This represents an adverse movement of £785k from the month 6 position. In respect to the children looked after budgets, at the end of November there were 1,257 children in care which is a net increase of 10 over the month. The number of externally provided residential placements remains unchanged at 51 and the number of placements with independent fostering agencies has reduced by 1 to 233. The forecast gross overspend for all children looked after placements has increased by £0.5m to £4.4m this month and has the potential to increase further toward the year-end as the year-end projection anticipates a net reduction of 11 external residential placements (to 40) and 26 external fostering placements (to 207) by the end of March 2016.

Across the staffing budgets the directorate is projecting an underspend of £1.9m. This is mainly due to slippage against the recruitment plans for services funded from the Innovations Fund [£1.1m]. Other key staffing variations include a forecast underspend on Children's Homes [£0.4m] and Complex Needs [£0.2m]. The directorate is also on track to deliver a £0.5m saving on agency staffing. These savings are partly offset by slippage on the budget action plans for Service transformation [£0.6m] and Youth Services [£0.5m.]

The 2015/16 budget includes £0.83m of anticipated savings around demand management in the transport budgets. The current forecast continues for a £1m overspend as a result of further demand pressures around special education needs transport and a rise in children and young people requiring education outside the city.

Within the overall forecast favourable income variation of £0.4m there are a number variations including £1.6m of additional Health funding for Children's Centres, £1m of additional funding from Schools Forum to support prevention and early intervention, £1m of additional High Needs DSG funding for SEND placements, and £0.5m of other funding around Unaccompanied Asylum Seeking Children, Improvement Partner Income, direct payments and Housing Benefit rebates. These favourable variations are largely offset by a reduction in Nursery Fees and DSG income for 2, 3 and 4 year old early education provision.

3.2.3 City Development – overall, the Directorate is anticipating an underspend of £0.17m against the £48m net managed budget. The main change since month 6 is that further savings are expected to be made on staffing together with an expected increase in other income in Planning. The year-end projection also assumes that the Directorate will receive additional one off income within the overall forecast. The majority of the budget action plans are on track to deliver the anticipated savings with the exception of the plans around increased income [£0.6m], the community asset transfer proposals [£0.14m] and the anticipated savings in sport and active recreation [(£0.06m)].

3.3.4 Environment & Housing - overall the Directorate is forecasting a year-end underspend of £1.34m against its £59.7m net managed budget. A key area of underspend relates to car parking where, through a combination of staffing savings and additional fee income from both off and on-street, an underspend of £0.9m is projected.

Waste Management are anticipating an underspend of £0.55m which includes the £0.4m of additional PFI grant income savings due to the Recovery and Energy from Waste Facility (RERF) being certified as ready to take waste for commissioning (a month earlier than assumed in the budget). Parks and Countryside and Community Safety are forecasting overspends of £0.26m and £0.06m respectively.

3.2.5 Public Health – overall, the Public Health budget is forecast to overspend by £0.4m. The allocation of the ring-fenced Public Health grant for 2015/16 was frozen at 2014/15 levels of £40.5m. However, additional responsibility for the 0 - 5 years services (health visiting services and Family Nurse Partnership) transferred to LCC in October with further funding of £5m attached. In 2014/15 there was an underspend of £1.2m of the ring fenced grant which has been brought forward for use in 2015/16 in line with grant conditions. Of this amount, £0.8m had been

expected to fund the base budget for 2015/16 and the remaining £0.4m has been allocated to services committed to during 2014/15 but which had not yet taken place.

On the 4th November the Government announced the outcome of the consultation on the implementation of a £200m national cut to the 2015/16 Public Health grant allocation. This confirmed the Department of Health's preferred option of reducing each local authority's allocation by 6.2%, which means a reduction of £2.82m for Leeds. To date, £2.4m of potential savings have been identified and are in the process of being implemented and these have been reflected in the year-end projections. There are still some risks attached to the delivery of these in-year savings, particularly the activity based contracts.

In the Spending Review and Autumn Statement, Government indicated that it will make savings in local authority public health spending with average annual real-terms savings of 3.9% over the next 5 years which will manifest in reductions to the ring-fenced public health grant to local authorities and that these cuts are in addition to the 6.2% in-year 2015/16 reduction which will now recur in 2016/17 and beyond. For Leeds, it is estimated that this will mean a grant reduction of £3.9m in the 2016/17 financial year with a total estimated reduction to the grant allocation of £7.3m by 2019/20. This will effectively mean that the Council will have £25m less to spend on public health priorities between 2015/16 and 2019/20.

- 3.2.6 **Strategy & Resources** – at month 7, the Directorate is forecasting a balanced budget position which reflects the positive progress against the range of budget savings plans in addition to other minor variations.
- 3.2.7 **Citizens & Communities** – at this stage in the financial year the Directorate is expecting to deliver the budgeted level of savings and deliver an underspend of £0.3m. Many of the required budget action plans have already been implemented and achieved, and in all cases work is progressing to achieve the required savings.
- 3.2.8 **Civic Enterprise Leeds (CEL)** – the overall projected position at month 7 for CEL is an overspend of £0.3m which is primarily accounted for by a £165k overspend against the Catering net budget and a £150k overspend on Property Cleaning. The catering overspend is a result of an income shortfall against the increased budgeted number of meals whereas the property overspend arises from not meeting efficiencies included within the base budget.
- 3.2.9 **Strategic & Central budgets** - overall, the strategic & central budgets are forecast to overspend by £0.7m. There are a number of key variations within this figure.
- i) The Business Rates Retention Scheme came into effect in April 2013 and significantly changed the system of financing local government. In terms of business rates income, whilst there has been some growth, this has been offset by the impact of successful valuation appeals and other reductions to the rating list, either through closure, Valuation Office reviews or other appeals against the rating list. Whilst the impact of major variations in business rates income is managed through a collection fund and therefore will impact on future years, there will be an impact on the levy payment to the business rates pool which is budgeted for within the general fund. Based on the latest business rates

information, we are anticipating a levy payment of £1.8m in 2015/16 which is £1.3m less than the budget.

- ii) An additional £1.8m of savings to the revenue budget are anticipated in 2015/16 through the additional capitalisation of eligible general expenditure (£0.3m) and eligible spend in schools budgets (£1m).
- iii) The 2015/16 budget included a £1.2m action plan in respect of reviewing and reducing directorate spend outside of council contracts. Work is on-going to realise these savings however it is anticipated that £0.6m of the savings will slip into future financial years. In addition, the forecast on the strategic budget recognises that the £1m corporate procurement target will be achieved through Directorate budgets.
- iv) New Homes Bonus is a funding mechanism rewarding councils that increase the number of occupied homes within their areas. The reward effectively doubles the amount of Council Tax for every new home built or empty home brought back into use, and is payable for six years. The 2015/16 budget assumes some £18.5m in respect of New Homes Bonus. At month 7, the forecast recognises the confirmed shortfall of £0.85m.
- v) Early Leavers Initiative – the month 7 projection anticipates a cost of £2.6m in 2015/16 which is a shortfall of £0.6m against the £2m earmarked reserve.
- vi) In addition, there is a potential reduction in section 278¹ income of approximately £1.5m which reflects lower development activity than anticipated.

3.2.10 Additional information across the range of budget action plans, other risk areas and forecast budget variations can be found in the financial dashboards at appendix 1.

3.3 Other Financial Performance

3.3.1 Council Tax

The current Council Tax in-year collection rate stands at 63.75% which is marginally behind [0.12%] the performance in 2014/15. The year-end forecast is to achieve the 95.7% target collection rate, collecting some £285m of income in the year.

3.3.2 Business Rates

The current Business Rates collection rate stands at 65.25% which is marginally behind [0.87%] the performance at this point in 2014/15. The year-end forecast is to achieve the 97.7% target collection rate, collecting some £376m of business rates income. However, whilst collection rates continue to be on target, as mentioned at paragraph 3.2.9, there continues to be a significant issue around the total income to be collected and specifically the high number and backdating of business rates appeals. The financial impact of these will manifest through the collection fund and therefore has been recognised in the 2016/17 financial strategy.

The Council receives income from developers to fund highways works which are required for new development schemes. These are known as section 278 agreements and the Council's 2015/16 revenue budget provides for income of £5.2m for such schemes.

3.3.3 Prompt payment of Creditors

The current performance for the prompt payment of invoices processed within 30 days is 92.55% which continues to compare favourably against the target of 92%.

3.3.4 Procurement Report

Executive Board has requested a quarterly update on procurement activity. The report attached at appendix 2 provides information in relation to the second quarter of the current financial year.

4. Housing Revenue Account (HRA)

4.1 After 7 months of the financial year the Housing Revenue Account is forecasting a projecting a surplus of £134k.

4.2 Overall income is projected to be £0.6m more than the budget which is primarily due to additional rent income of £0.4m, along with additional income from service charges and other income. Savings of £0.4m are forecast in relation to employees, which is primarily due to vacant posts. Additional spend on the disrepair provision [£0.4m] and repairs to dwellings [£0.4m] are expected to be offset by reduced spend on premises [£0.13m].

5. Corporate Considerations

5.1 Consultation and Engagement

5.1.1 This is a factual report and is not subject to consultation

5.2 Equality and Diversity / Cohesion and Integration

5.2.1 The Council's revenue budget for 2015/16 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 25th February 2015.

5.3 Council Policies and Best Council Plan

5.3.1 The 2015/16 budget targeted resources towards the Council's policies and priorities. This report comments on the financial performance against this budget.

5.4 Resources and Value for Money

5.4.1 This is a revenue financial report and as such all financial implications are detailed in the main body of the report.

5.5 Legal Implications, Access to Information and Call In

5.5.1 There are no legal implications arising from this report.

5.6 Risk Management

5.6.1 Budget management and monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans,

those budgets which are subject to fluctuating demand and key income budgets. To reinforce this risk-based approach, specific project management based support and reporting around the achievement of the key budget actions plans is in place from 2015/16.

6. Recommendations

- 6.1 Executive Board are asked to note the projected financial position of the Authority for 2015/16.

7. Background documents¹

- 7.1 **None**

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1 – Childrens Services Only

CHILDREN'S SERVICES FINANCIAL DASHBOARD FINANCIAL DASHBOARD - 2015/16 FINANCIAL YEAR MONTH 7 (April to October 2015)

Overall - the Directorate is highlighting an overall potential year end overspend of £4.42m which equates to 3.6% of the Directorates Net Managed Budget and represents an adverse movement of £785K from the last period.

CLA Obsession - At the end of July there were 1,257 CLA - a net increase of 10 from Period 6. External residential placements remain unchanged at 51 ; IFA placements have reduced by 1 to 233. The forecast overspend (gross) for all CLA placements is up by £485K to £4.4m this month and has the potential to deteriorate further (NB the projection assumes a net reduction of 11 external residential placements (to 40) and 26 IFA placements (to 207) by the end of the financial year. **Staffing** - Overall the Directorate is projecting a year end underspend of £1.9m. This is primarily due to slippage against the Directorate's recruitment plans for services funded from the Innovations Fund £1.1m. Other key staffing variations include a forecast underspend on Children's Homes £0.4m and Complex Needs £0.2m. The directorate is also on track to deliver a £0.5m underspend on agency staffing. These savings are partly offset by slippage on the budget action plans for Service transformation £0.6m and Youth Services £0.5m.

Transport - the 2015/16 strategy includes £0.83m of anticipated savings around demand management . The service continue to project a £1m overspend as a result of further demand pressures around SEN transport and a rise in children and young people requiring education outside the city.

Partnerships/Trading - At this stage, the action plans around rationalising/trading the learning improvement service are projected to be delivered in full.

Other Income - A projected favourable variation of £0.4m masks some significant service variations including £1.6m of additional Health funding for Children's Centres (Family Services), £1m of additional funding from Schools Forum, £1m of additional High Needs DSG funding for SEND outside placements, and £0.5m of contingency / other funding around unaccompanied Asylum Seeking Children, Improvement Partner Income, Direct Payments and Housing Benefit rebates. These favourable variations are largely offset by a reduction in Nursery Fees and DSG income for 2, 3 and 4 year old early education provision.

Budget Management - net variations against the approved budget

	Expenditure Budget	Income Budget	Latest Estimate	PROJECTED VARIANCES											Total (under) / overspend	
				Staffing	Premises	Supplies & Services	Transport	Internal Charges	External Providers	Transfer Payments	Capital	Appropriation	Total Expenditure	Income		
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000
Partnership, Development & Business Support	20,993	(2,827)	18,166	624	0	(177)	1,000	0	0	0	0	0	0	1,447	260	1,707
Learning, Skills & Universal Services	132,664	(117,649)	15,015	(738)	0	(16)	0	(86)	(1,512)	0	0	0	(2,352)	1,548	(804)	
Safeguarding, Targeted & Specialist Services	126,219	(32,992)	93,227	(1,787)	(20)	(99)	190	55	5,311	991	0	1,100	5,741	(2,227)	3,514	
Strategy, Performance & Commissioning	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Central Overheads	9,156	(12,938)	(3,782)	0	0	0	0	0	0	0	0	0	0	0	0	
Total	289,032	(166,406)	122,626	(1,901)	(20)	(292)	1,190	(31)	3,799	991	0	1,100	4,836	(419)	4,417	

