



Report of the Director of Resources

Executive Board

Date: 14th November 2007

Subject: Financial Health Monitoring 2007/08 – Half Year Report

Electoral wards affected:

Ward Members consulted
(referred to in report)

Specific implications for:

Equality and Diversity

Community Cohesion

Narrowing the gap

Eligible for call In

Not eligible for call in

(details contained in the report)

Executive Summary

1. The purpose of this report is to inform members of the financial health of the authority after six months of the financial year in respect of the revenue budget and the housing revenue account, and to receive the mid year update of the Annual Efficiency Statement. A separate report on the Council's Capital Programme is elsewhere on this agenda.
2. The report identifies that a number of council services are continuing to face financial pressures in 2007/08, often reflecting pressures which impacted on the Council's 2006/07 outturn.
3. It is proposed to fund areas of immediate concern from savings in capital financing costs and general fund reserves. These total £5.0m and therefore the proposed virements require approval of full Council. It is crucial that all other budget pressures are addressed by directorates who are required to continue to develop and implement action plans to manage identified pressures within available resources.
4. Members are asked to note the projected financial position of the authority after six months of the financial year, and are asked to note the decision of the Leader, Chief Executive and Director of Resources to approve the Annual efficiency statement – mid year update 2007 for submission to the Department for Communities and Local Government by 15th November 2007.

1. PURPOSE OF REPORT

- 1.1 This report sets out for the Board the Council's financial health position for 2007/08 after six months of the financial year. The report covers revenue expenditure and income to date compared to the approved budget, the projected year end position and proposed actions to ensure a balanced budget by the year end. The report also highlights the position regarding other key financial indicators, including Council Tax collection and the payment of creditors.
- 1.2 In addition, this report sets out the Council's efficiencies which have been achieved during 2007/08 to date and the value of efficiencies which are expected to be achieved by the year end.

2. BACKGROUND INFORMATION

- 2.1 Members will recall that the net budget for the general fund was set at £505.2m, which provided for a contribution of £4.3m from reserves. As a result, the level of general fund reserves at 31st March 2008 were estimated to be £13.0m.
- 2.2. As reported in the 2006/07 outturn report to Board in June 2007, the net contribution to General Fund reserves was £6.3m in excess of the budget giving a balance carried forward of £23.6m. Taking account of the budgeted usage of reserves of £4.3m, the £0.67m approved by the Board at their meeting on the 4th April 2007 to support a number of one off initiatives, together with other potential liabilities identified in the report, it is considered that this is a prudent level to ensure that reserves at 31st March 2008 will be capable of covering the estimated financial risk of the authority as assessed using the risk based reserves strategy.
- 2.3 Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget after six months and comments on the key issues impacting on the overall achievement of the budget for the current year.

3. MAIN ISSUES

- 3.1 Within adult social services there is a projected overspend of £3.3m, a significant proportion of which reflects some ongoing demand pressures. The learning disability service is experiencing continued demand pressures in line with national trends, for which a year-end overspend of £1.3m is projected for commissioned services. Within learning disability services the complexity of cases results in volatile expenditure patterns which are difficult to predict accurately. The number of intensive care packages this year has exceeded the amount budgeted. The growth in direct payments, a key performance target, is also presenting a financial pressure amounting to £0.6m. Some budgeted savings are not now projected to be achieved in full, although contingency actions have been identified to offset the financial impact of this as far as possible.
- 3.2 Within Children's Services, the pressures within social care being experienced in the early part of this financial year have continued. Projected spend on children's placements is currently forecast to exceed the budget provision by £1.1m. This mainly reflects increased numbers of children and fee-paid foster carers, together with higher

than anticipated spend on leaving care services and costs for unaccompanied asylum seeking children exceeding the grant claimable. There are also some pressures within the non-placement elements of the social care budget, including staffing and transport as well as some staffing pressures within the Director of Children's Services (DCS) Unit. The overall half-year position for Children's Services is a projected overspend of £2m.

- 3.3 As reported in the first quarter report, the Parks and Countryside service of City Development continues to face a number of significant budget pressures. These amount to £670k expenditure primarily relate to staffing, materials and transport and a projected income shortfall of £500k including £130k within cemeteries and crematoria reflecting trends to date. In addition a pressure of £400k is projected in respect of PFI and sport trust development costs within the Sport and Active Recreation service. These pressures have been partly offset by £300k following the invocation of penalty clauses in the Street Lighting contract due to the failure to achieve the column implementation programme to the agreed timescales.
- 3.4 In Environment and Neighbourhoods a variation of £500k is projected within Roseville doors which reflects lower than anticipated turnover based on the trading position after six months. Within the Housing General Fund residual costs of £349k associated with the implementation of the new Housing Needs staffing structure are partially offset by underspends of £47k within the Strategic Landlord and the Strategic Commissioning Body.
- 3.5 Within former City Services the projected outturn position of £0.7m relates to Streetscene services. The main areas of concern are additional expenditure of £0.3m to be incurred on vehicle repairs, staffing costs of £0.2m, together with a projected reduction in income received of £0.2m from electricity generated from the closed landfill site at Gamblethorpe.
- 3.6 The catering trading agency is projecting an overspend which mainly reflects a 7% decline in primary school meal numbers and an under-recovery of overheads at the cold store due to a shift to fresh food provision and the loss of PFI school business. Although an action plan has been put in place, a break even position is still projected although this represents a variation to the budget of £0.3m. The cold store is now being reviewed to determine its future although in the short term the adult care frozen community meals service is being run from the site which help offset losses. Commercial Services are currently conducting a major option appraisal of the service to determine its medium term viability, in conjunction with Children's services.
- 3.7 Following the outcome of a Judicial Review of the LABGI scheme, £1.5m received in respect of previous years was transferred to the contingency fund, although the forecast for LABGI income relating to 2007/08 which continues to show growth in rateable values, has been scaled down to reflect the likely share of the national pot. However proposed changes to the regulations regarding Minimum Revenue Provision, whilst difficult to quantify accurately at this stage, are anticipated to offset the shortfall on LABGI. The position will be closely monitored.
- 3.8 As agreed by Board at month 3 savings in capital financing costs of £4.2m were transferred to the equal pay/job evaluation reserve. A capitalisation directive has now been received from the DCLG in respect of equal pay costs incurred in 2007/08 and the latest projected costings for job evaluation in year is £6.5m compared to the base

budget of £3.0m, although this is still subject to agreement. It is proposed therefore to release funds from the reserve once the position is finalised.

3.9 As can be seen from the above, there are a number of potentially significant pressures facing the Council in 2007/08. It is proposed that funding is made available from savings in capital financing costs and by releasing general fund reserves in the sum of £ 5.0m to those areas of immediate concern as follows:-

- Adult Social Services – Learning Disability Commissioning £1.3m
- Adult Social Services – Direct Payments £0.6m
- Children’s Services – children’s placements and DCS unit staffing £1.3m
- Recreation services £1.0m
- Roseville doors £0.5m
- Catering trading agency £0.3m

3.10 After funding the above pressures, general fund reserves are projected to be above the minimum level required under the risk based reserves policy.

3.11 In accordance with this policy, it is proposed that any underspends, or overspends above the allocations set out in paragraph 3.9, will be carried forward.

4 SCHOOLS

4.1 School reserves stood at £6.1m as at 31st March 2007. This comprised surpluses in primary and special schools and a deficit of £1.6m in the secondary school sector.

4.2 There are a number of schools which have set deficit budgets for 2007/08. In accordance with the Council’s policy on licensed budgets, such schools are required to submit action plans detailing how they intend to move towards a balanced position. The evaluation of these plans does raise a number of issues as to deliverability and it is proposed, in conjunction with Education Leeds, to review the current licensed deficit policy and its application.

5 REVENUE BUDGET MONITORING POSITION - HOUSING REVENUE ACCOUNT (HRA)

5.1 Six months into the new financial year, income is projected to exceed the latest estimate by £0.9m, reflecting additional property services’ income, a significantly improved voids position, and lower council property sales resulting in higher retained property numbers. This is partly offset by increased property services’ staffing costs, lower income from a reduced opportunity to capitalise Right to Buy administration costs at the level of previous years, and additional management fees payable to the ALMOS by way of incentive payments, especially in relation to voids. An in year underspend of £0.8m is currently forecast, comprising a projected surplus of £0.2m, and £0.6m lower Swarcliffe PFI costs which will be utilised to provide for additional expenditure over the life of the contract.

5.2 Bad debts and disrepair claim costs continue their downward trend, and savings of £0.3m from the latest estimate of £2.2m are projected for the year. This will be reviewed and updated on a quarterly basis, although the level of write-offs and management of arrears over the remaining six months could significantly affect this projected level of £0.3m savings.

- 5.3 Of the £18.486m opening reserves, the following have been released for usage in this year: £1m to the ALMOs for inspections, £350k for Little London PFI structural surveys, £125k for Easel demolition costs, and £200k for Swarcliffe Environmental works.

6 ANNUAL EFFICIENCY STATEMENT

- 6.1 For the period 2005/06 to 2007/08 the Authority has a cumulative efficiency target of £51.2m, being 7.5% of the Authority's baseline expenditure. This baseline calculation was prepared on the basis of the Authority's actual spend for 2004/05, excluding schools, police revenue expenditure and specific one off grants.
- 6.2 In addition to delivering cumulative efficiencies totalling 7.5%, at least 50% of these (3.75% or £25.6m) had to be of a cashable nature, whereby resources are released, as opposed to non-cashable efficiencies which result from delivering enhanced outputs for the same inputs. Against this target of £51.2m, the Authority has submitted efficiencies totalling £53.1m to the end of 2006/07 and has set out planned efficiencies in a Forward Looking statement for 2007/08 totalling £12.9m.
- 6.3 At the mid point of 2007/08 the Authority is still on target to deliver efficiencies for 2007/08 of approximately £12m. Taking into account efficiencies previously reported, the cumulative position is projected to be £65.1m against a cumulative target of £51.2m.

7 COLLECTION OF LOCAL TAXATION

- 7.1 The level of Council Tax collected at the end of September 2007 is 55.94% of the debit for the year of £226m. This is slightly behind the same period last year and the performance target for the year of 96.5% is being closely monitored.
- 7.2 The collection of non-domestic rates for the first six months is 61.2% of the current net debit of £288.5m, which is 1.1% below the same period last year. Again, the performance target of 98.6% is being closely monitored.

8 PROMPT PAYMENT OF INVOICES

- 8.1 A local target of 92% for paying all undisputed invoices within 30 days of receipt of agreed terms was set for the year. For the period 1st April to 30th September the actual performance was 91.4%, the same as at the end of the first quarter of 2007/08.
- 8.2 The total number of invoices processed in the period were 386,080. Of these, 279,467 met the prompt payment criteria. After accounting for 6,793 invoices in query with the supplier, 249,438 invoices were paid within 30 days, leaving 23,236 paid after 30 days.
- 8.3 The creditor payments function has now been centralised in the Business Support centre based in Belgrave House and it is anticipated that along with the continued development of electronic ordering and invoicing of goods, and expanding the use of purchasing cards, performance will improve.

9 RECOMMENDATION

- 9.1 Members of the Executive Board are asked to
- Note the projected financial position of the authority after six months of the new financial year

- Recommend to Council the appropriate budget adjustments as described in paragraph 3.9
- Note the decision of the Leader, Chief executive and Director of Resources to approve the Annual efficiency statement – mid year update 2007 for submission to the Department for Communities and Local Government by 15th November 2007