

**Report of the Deputy Chief Executive**

**Report to Executive Board**

**Date: 22<sup>nd</sup> March 2017**

**Subject: Financial health monitoring 2016/17 – April to January (month 10)**

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 general fund revenue budget, and the Housing Revenue Account.
2. The 2016/17 financial year is the first year covered by the 2015 Spending Review and again presents significant financial challenges to the council. The council to date has managed to achieve considerable savings in the order of £330m since 2010 and the budget for 2016/17 will require the council to deliver a further £76m of savings.
3. Executive Board will recall that the 2016/17 general fund revenue budget, as approved by council provides for a variety of actions to reduce net spend by £31.5m delivering some £76m of budget action plans by March 2017. After 10 months of the financial year it is clear that the majority of these actions and savings plans are on track to be delivered, however this report highlights a potential overspend/risk of £0.8m.
4. At month 10, the Housing Revenue Account is projecting a £1m surplus.
5. In the Spring Budget on the 8<sup>th</sup> March 2017, the Chancellor of the Exchequer announced additional funding to support adult social care services and additional support for small businesses, a new business rate

relief scheme for pubs and a new discretionary relief scheme for businesses that face the steepest increases in their business rates bills as a result of the 2017 revaluation.

## **Recommendations**

1. Executive Board are asked to note the projected financial position of the authority.
2. Executive Board are also asked to agree a budget virement of £906.8k from Civic Enterprise Leeds to Environment & Housing as outlined at paragraph 3.1.6.
3. Executive Board to note the additional funding allocations for Leeds following the Spring Budget and that spending proposals will be brought forward in due course.

### **1. Purpose of this report**

- 1.1 This report sets out for the Executive Board the Council's projected financial health position for 2016/17 after 10 months of the year.
- 1.2 Budget monitoring and management is a continuous process throughout the year, and this report reviews the position of the budget and highlights potential key risks and variations.

### **2. Background information**

- 2.1 Executive Board will recall that the net budget for the general fund for the 2016/17 financial year was set at £496.4m, supported by the use of £3.45m of general reserves.
- 2.2 Budget 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.

### **3. Main Issues**

- 3.1 At month 10, a £0.8m overspend is forecast, as shown in table 1 below.

*Table 1 – forecast 2016/17 budget variations by directorate*

Directorate	Director	(Under) / Over spend for the current period				Month 9 Position
		Staffing	Total Expenditure	Income	Total (under) /overspend	
		£000	£000	£000	£000	£000
Adult Social Care	Cath Roff	(2,167)	887	(888)	(1)	0
Children's Services	Steve Walker	674	8,693	(2,053)	6,640	6,640
City Development	Martin Farrington	(974)	2,057	(2,473)	(416)	(368)
Environment & Housing	Neil Evans	(1,572)	5,697	(6,052)	(355)	(97)
Strategy & Resources	Alan Gay	(1,391)	(1,364)	1,311	(53)	(49)
Citizens & Communities	James Rogers	15	1,637	(1,587)	50	(99)
Public Health	Dr Ian Cameron	(233)	2,004	(2,036)	(32)	(26)
Civic Enterprise Leeds	Alan Gay	354	987	(612)	375	375
Strategic & Central	Alan Gay	300	(5,252)	(117)	(5,369)	(5,440)
<b>Total Current Month</b>		<b>(4,994)</b>	<b>15,346</b>	<b>(14,507)</b>	<b>839</b>	<b>936</b>

3.1.1 The minimum revenue provision (MRP) is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. The forecast position on the strategic and central budget recognises some £9.3m of savings against the MRP budget which reflects the proposal to apply capital receipts and previous overprovision to reduce the charge to the revenue budget.

3.1.2 New homes bonus – the forecast outturn for the strategic and central budget recognises the changes to the New Homes Bonus funding which Government announced through the 2017/18 provisional local government finance settlement and confirmed through the final settlement on the 20<sup>th</sup> February 2017. For Leeds, these changes mean a reduction of funding of £4.5m in the 2016/17 financial year which has been recognised in the forecast for the strategic and central budget.

3.1.3 Flexible use of capital receipts – Council, at its meeting in February 2017 approved the strategy for the flexible use of capital receipts. The forecast position on the strategic and central budget recognises the strategy to flexibly apply capital receipts to fund £2.8m of early retirement severance costs in the 2016/17 financial year which releases the £2m earmarked reserve to support the 2017/18 budget and also avoids an in-year budget pressure in 2016/17.

3.1.4 Children's Services have now received official confirmation that the Department for Education will award £9.6m of innovation funding to Leeds over the next three years. This is the second successful bid for innovation funding and will enable Children's Services to strengthen the resources and support available in local areas to make sure that families get the support they need at the earliest possible time. The use of the £9.6m of funding will be managed across the 2016/17, 2017/18 and 2018/19 financial years as appropriate through appropriation to/from earmarked reserves. The separate report on the agenda provides more information about this programme of investment.

- 3.1.5 Work is continuing to review funding which is held on the balance sheet to be matched against potential future liabilities. The aim of the review is to determine whether there are opportunities to appropriately release the funding to revenue recognising those longer-term liabilities.
- 3.1.6 This report also seeks agreement from the Executive Board to vire budget of £906.8k from Civic Enterprise Leeds to the Environment & Housing directorate. This is in line with the virement limits set out in the constitution and follows a review of the function and a decision by the Deputy Chief Executive to approve the transfer of property management activity and staffing costs. This service integration will assist in managing capacity issues around estimating and surveying associated with the growth of the capital programme and will also reduce potential duplication of process and resulting overheads.
- 3.1.7 The Chancellor of the Exchequer, Philip Hammond, delivered his first Budget to the House of Commons on the 8<sup>th</sup> March 2017.
- 3.1.7.1 The Chancellor announced that the government will provide an additional £2 billion to councils in England over the next 3 years to spend on adult social care services of which £1 billion of this will be provided in 2017/18 to ensure that councils can take immediate action to fund care packages for more people, support social care providers, and relieve pressure on the NHS locally. Building on the approach to the Better Care Fund, councils will need to work with their NHS colleagues to consider how the funding can be best spent, and to ensure that best practice is implemented more consistently across the country. The headline allocation for Leeds is £28.8m with £14.7m for 2017/18, £9.4m in 2018/19 and £4.7m in 2019/20 which are additional to the funding already announced through the improved Better Care Fund.
- 3.1.7.2 In respect of business rates, following lobbying from the commercial sector, a number of reliefs and concessions have been introduced into the budget:
- a) Support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year.
  - b) Providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area.
  - c) A £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017.

Local government will be fully compensated for the loss of income as a result of these measures.

3.2 The other key variations against the revenue budgets are outlined below and more detailed information is included in the financial dashboards at appendix 1.

3.2.1 Adult Social Care - the directorate is projecting a balanced position at the financial year-end, as also reported at month 9. Projected spend on community care packages has increased though this has been offset by additional staffing savings and an increase in expected income. The directorate will be using £0.4m less of reserves than was assumed in the original budget.

A review of budget action plans has taken place and slippage totalling £1.9m is projected at the year-end, this is an improvement of £0.1m since month 9 and contingency savings have been identified to offset the impact. There is a projected shortfall of £0.6m in delivering the specific actions within the community care packages budget, with the largest shortfall relating to lower than anticipated reablement figures. Slippage of £0.8m relates to contracts and grants and £0.5m to the Better Lives programme within older people's residential and day care services. Some other budget pressures and savings have been identified and further details are outlined in the financial dashboard at appendix 1.

3.2.2 Children's Services - at month 10 the directorate is projecting an overspend of £6.64m, which represents a stable position compared to the previous month. The forecast assumes £1m of funding will be applied in 2016/17 from a new innovations funding which was recently been approved by the Department for Education.

In terms of children in care, at month 10, there are an additional 32 looked after children in external residential placements and with independent fostering agencies than the 2016/17 budget provides for resulting in a potential £5.5m pressure around against these demand-led budgets which is partly offset by a £2.3m appropriation from the earmarked demand and demography reserve. In the last quarter of 2015/16 numbers had increased and continued to increase in April but there had been a steady reduction in children looked after numbers since May. However, the reduction in externally provided placements seen during the first 8 months of the financial year has not been maintained and there has been a marginal increase since December. The number of children placed with independent fostering agencies has continued to reduce since month 7. There are currently 1,255 children in care which is a reduction of 3 in the month; this includes 57 placed with external residential providers and 192 with independent fostering agencies. There is an anticipated £1.1m pressure on the in-house fostering budget but this is off-set by £1.1m additional income to the adoption budget. Overall the budget supports 1,170 placements for children in care across a mix of placement settings. The outturn forecast assumes a gradual reduction in the number of externally provided placements through to the end of March

The home to school and home to college transport budget continues to be under significant pressure due to a rise in the number of young people

with complex needs, a rise in the transport requirements outside the city and an increase in private hire rates. The pressure is currently identified at £1.7m, which is net of the appropriation of £1m from the specific demand & demography earmarked reserve.

Other Income – at present, £1m of additional net income from the Innovations & Partners in Practise grant is reflected in the forecast outturn position for Children’s Services. As mentioned at para 3.1.4, the grant bid has now been approved and will provide £9.6m of funding to be managed over three years to reflect the final spending and funding profiles. The overall income forecast also recognises a net £1.6m pressure from a reduced level of funding for Children’s Centres than reflected in the budget.

Dedicated Schools Grant (DSG) – as reported previously, pressures have emerged during the year in relation to the Social Emotional and Mental Health provision, Funding for Inclusion numbers and the Central Early Years expenditure which total £5.6m. A report was presented to School Forum in January on the 2017/18 funding arrangements and options for managing these budget pressures with schools also being consulted on the options prior to the meeting. A decision will be taken in March around the specific proposals.

- 3.2.3 City Development – at month 10 the overall position is a projected underspend of £0.42m. However it should be noted that there are a number of fluctuations within the directorate that are being managed through additional income receipts and specific actions.
- 3.2.4 Environment & Housing – at month 10 the directorate is forecasting an underspend of £0.36m against its £53m net managed budget. Within this overall figure, the waste management budget is forecast to underspend by £0.3m. In car parking, staffing savings and additional income are expected to deliver a saving of £0.3m and in Community Safety there is a forecast underspend of £0.1m due again to staffing savings, one-off income from the WYPCC and additional Ministry of Justice funding. Environmental action & health are forecasting a £0.3m underspend due to staffing savings and housing support are also expecting to deliver a £0.1m underspend, again due to staffing savings. These savings are enabling the directorate to manage the directorate wide staffing efficiency target within the overall budget.
- 3.2.5 Citizens & Communities – budget action plans have been reviewed with each Chief Officer and it is anticipated that the majority of plans will be delivered, though there is a pressure of £0.3m on the Customer Access budget which is offset by a forecast underspend of £0.24m on the elections, licensing and registration budget which is due to additional income. Overall, the directorate is forecasting a £0.05m overspend against its £29.7m budget.
- 3.2.6 Public Health – the public health budget and budget savings plans for 2016/17 reflect the continuing reduction to the ring-fenced grant. The

2016/17 budget reflects savings of £1.1m from successful consultation and negotiation with our partners and providers including 3rd Sector and NHS providers. In addition savings have been made from the Public Health funding which is provided across Council directorates to support joint commissioning and commissioning of Council run services resulting in £355k of savings. Savings of £955k have been found from Public Health programme budgets, vacant posts, support services and running costs.

- 3.2.7 Strategy & Resources – overall, the directorate is projecting an underspend of £0.05m. Within the Projects, Programmes and Procurement Unit there is a forecast shortfall of income of £0.8m which is partly-offset by anticipated savings on the staffing budget of £0.7m resulting in a £0.19m forecast overspend which is being offset by underspends in Democratic Services (£0.13m), Informational Technology (£0.08m) and Strategy and Improvement (£0.025m). The rest of the directorate is expected to deliver on its budget action plans.
- 3.2.8 Civic Enterprise Leeds – the overall projected position at month 10 is an overspend of £0.38m. Within this, £0.2m is explained by a potential overspend against the catering net budget which is mainly as a result of the marginal impact of the loss of 7 school contracts together with the marginal impact of a shortfall against the adjusted meal numbers. The remaining £0.18m is due to additional security costs in Corporate Property Management which were incurred prior to the demolition of an unsafe grade 2 listed building.
- 3.2.9 Strategic & Central budgets – at month 10, the strategic and central budgets are anticipated to underspend by £5.4m. The key variations include;
- i. Minimum revenue provision – savings of £9.3m
  - ii. New Homes Bonus – a shortfall of £4.76m
  - iii. Debt - a net forecast pressure of £0.8m due to the conversion of short-term debt to long-term to take advantage of low long-term interest rates.
  - iv. Section 278 income - a potential £1.8m risk due to lower levels of development activity.
  - v. Procurement - a £1m variation which reflects that the procurement savings will be managed through directorate budgets.
  - vi. The spend forecast recognises the impact of the decision to increase the Leeds living wage from January 2017.
  - vii. PFI – a £0.9m variation which recognises that these savings will show in directorate/service budgets.
  - viii. Savings of £2m from the additional capitalisation of eligible spend in general fund and school budgets.
  - ix. Appropriation of £0.9m from earmarked reserves.
  - x. Savings of £2m on the levy contribution to the business rates pool.
  - xi. A potential pressure on court cost fees.

### **3.3 Other financial performance**

3.3.1 Council tax – the in-year collection rate at the end of January 2017 was 90.31% which is marginally ahead of the performance in 2015/16. At this stage of the year, the forecast is for an in-year collection rate of 95.9% collecting some £303m of council tax income.

### 3.3.2 Business rates

The business rates collection rate at the end of January 2017 was 89.27% which is 0.33% ahead of the performance at this stage in 2015/16. The forecast is still to achieve the 2016/17 in-year collection target of 97.7% collecting some £381.4m of income.

### 3.3.3 Prompt payment of creditor invoices

The current performance for the prompt payment of invoices processed within 30 days is 91.55% which is marginally below 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 third quarter of the current financial year.

## 4. Housing Revenue Account (HRA)

4.1 At month 10 the HRA is projecting a £1m surplus at the year-end. Projected income from rents and service charges are forecast to be below the budget with a £0.2m estimated variation at the year-end. Other income is forecast to be £0.5m more than the budget due in the main to £0.49m of income from the gain share arrangement with Mears which will be appropriated to the HRA capital reserve. There are a number of variations against the expenditure budgets which together total an underspend of £0.7m, including an underspend of £0.97m on the employee budget due in the main to staffing vacancies, a pressure on the disrepair provision of £0.62m because of new cases and a pressure of £0.1m on the supplies and services heading. Further detailed information is included in the HRA financial dashboard at appendix 1.

## 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 2016/17 was subject to equality impact assessments where appropriate and these can be seen in the papers to Council on 24<sup>th</sup> February 2016.

### 5.3 Council policies and Best Council Plan



5.3.1 The 2016/17 budget targeted resources towards the council's policies and priorities as set out in the Best Council Plan. This report comments on the financial performance against this budget, supporting the Best Council ambition to be an efficient and enterprising organisation.

#### **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 Financial management and monitoring continues to be undertaken on a risk-based approach with key budget risks identified as part of the annual budget-setting process and specifically monitored through the financial year. Examples include the implementation of budget action plans, those budgets which are volatile and subject to fluctuating demand, key income budgets, etc. The information in the financial dashboards at appendix 1 includes specific information on these risk areas.

### **6. Recommendations**

6.1 Executive Board are asked to note the projected financial position of the authority.

6.2 Executive Board are also asked to agree a budget virement of £906.8k from Civic Enterprise Leeds to Environment & Housing as outlined at paragraph 3.1.6.

6.3 Executive Board to note the additional funding allocations for Leeds following the Spring Budget and that spending proposals will be brought forward in due course.

### **7. Background documents<sup>1</sup>**

7.1 None

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<sup>1</sup> 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.