

Report of the Chief Officer Financial Services

Report to Executive Board

Date: 20th September 2017

Subject: Financial Health Monitoring 2017/18 – Month 4

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 both the revenue budget and the Housing Revenue Account as at month 4 of the financial year.
2. The 2017/18 financial year is the second 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 since 2010 and the budget for 2017/18 requires the Council to deliver a further £64m of savings.
3. The current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. Whilst the Council continues to make every effort possible to protect the front line delivery of services, it is clear that the position remains challenging and the projected overspend reflects this challenge.
4. Executive Board will recall that the 2017/18 general fund revenue budget, as approved by Council provides for a variety of actions to reduce net spend through the delivery of £64m of budget action plans by March 2018. At this stage of the financial year, it is clear that the majority of these actions are on track to be delivered, however this report highlights an initial forecast overall overspend of £3.7m.

5. In the context of the continuing demand led pressures within the Children and Families directorate it is proposed that a virement is undertaken to ensure that there is sufficient provision available to resource Children Looked After budgets. The result being that at month 4 the revised projections show a balanced budget.
6. At month 4, the Housing Revenue Account is projecting a balanced budget position.
7. Following the identification of two post balance sheet events, Executive Board are asked to note the revised 2016/17 outturn position and the impact on the level of the general reserve.

Recommendation

8. (i) Note the projected financial position of the authority as at month 4 and the ongoing work within Children's services to balance the revenue budget;

(ii) Approve a virement to increase the Children and Families budget by £3.7m to provide resources to fund the additional costs of children looked after. The officer responsible for the implementation of this recommendation is the Chief Officer Financial Services. The virement will be actioned before the next reporting period.

iii) Approve the adjustments to the 2016-17 outturn and general reserve following the identification of the two post balance sheet events as outlined in the report.

1. Purpose of this report

- 1.1. This report sets out for the Executive Board the Council's projected financial health position for 2017/18 at month 4 and to inform Executive Board of changes to the 2016/17 outturn and level of general reserve.
- 1.2. Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget and highlights potential key risks and variations after the first two months of the year.

2. Background information

- 2.1. Executive Board will recall that the net budget for the general fund for 2017/18 was set at £492.7m.
- 2.2. Following the closure of the 2016/17 accounts the Council's general fund reserve stands at £20.7m which is £2.6m higher than the amount assumed when the 2017/18 budget was approved. The 2017/18 budget does not assume any use of or contribution to this reserve during this financial year.
- 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. This has again been reinforced through specific project management based support and reporting around the achievement of the key budget actions plans.

3. Main Issues

3.1. 2016/17 Revised Outturn and Post Balance Sheet Events

- 3.1.1. The Council's outturn position for 2016/17 was received at June's Executive Board with a reported underspend of £2.637m. The audit of the final accounts is now almost complete and they will be received at Corporate Governance and Audit Committee in September. However, since the year end two issues have arisen which requires the accounts to be amended as they are considered to be of a material nature

3.2. Business Rates Provisions and Levy payment

- 3.2.1. As part of the normal process for reviewing the 2016/17 accounts, we have identified a post balance sheet adjustment to the collection fund account and specifically the level of provision for business rate appeals. This adjustment requires the provision for appeals to be increased by £4m as at 31/3/17 and reflects the latest information from the Valuation Office. Whilst the impact of variations in business rates income are managed through the collection fund, and therefore impacts in future years, there is a general fund impact in terms of the levy payments to the business rates pool. Prior to this adjustment the Council was required to pay a levy of £1.2m, but this has now reduced to

£0.8m, a reduction of £0.4m.

3.3. Carbon reduction commitment (CRC)

3.3.1. Each year in July the Council is required to submit its CRC return to government. When finalising the return this year it appeared the figures used in the 2016/17 accounts had been understated. Upon further review, it became clear that the annual return for the previous two years had also been understated for the reasons outlined below.

3.3.2. The CRC scheme is currently in its second phase which commenced in 2014/15. A number of changes to the system were introduced in Phase 2. For example the school portfolio's emissions were no longer included within the Council's CRC calculation but there were also changes to the treatment of street lighting and other unmetered supplies within the CRC calculation.

3.3.3. At the point of transition to the new phase in 2014-15 the inclusion of street lighting wasn't identified, as the guidance wasn't particularly clear, and therefore the templates used on an on-going basis continued to exclude the carbon related to unmetered supplies, meaning the Council's carbon usage was understated.

3.3.4. Following the review the submission has been independently verified to ensure the templates and the new figures are robust. As a result the Council will need to resubmit its CRC returns to DCLG for the period 2014/15 to 2016/17. The estimated impact of the understatement for the three years is circa £1.1m as the Council will be required to purchase additional allowances.

3.4. Impact on the Statement of Accounts

3.4.1. As the financial impact is considered material to the accounts and is known before the external audit is completed, the Council is required to report this as a post balance sheet event and amend its 2016/17 accounts accordingly.

3.4.2. Taking into account the required adjustments outlined above, the revised outturn for 2016/17 is shown below.

	£000
General Fund	
Reported Underspend	(2,637)
CRC Costs	1,084
Levy Saving	(408)
	<hr/>
	676
Revised Outturn	(1,961)

3.4.3. As a result of the changes in the outturn position, there is an impact on the level of general reserve. This is shown in the table below.

General Reserve	£000
Balance at 31/3/17	20,746
Change to Outturn	(676)
Restated General Reserve	20,070

3.4.4. At £20.1m the level of general reserve is higher than the estimated level of reserve assumed (£18.1m) when setting the 2017/18 budget in February. The Council's established reserves strategy encompasses an assessment of financial risks included in the budget. This is subject to constant review to ensure that the level of reserves is adequate to deal with the financial implications of these risks.

4. 2017/18 Financial Forecasts

4.1. At month 4 an overspend of £3.7m is initially projected, as shown in Table 1 below.

Table 1

Summary Position - Financial Year 2017/18 Period 4

Reporting Period July 2017

		(Under) / Over spend projected as at Month 4				Quarter 1
Directorate	Director	Staffing	Total Expenditure	Income	Total (under) / overspend	
		£000	£000	£000	£000	£000
Adult & Health	Cath Roff	(1,110)	5,991	(5,991)	0	0
Children and Families	Steve Walker	(66)	4,226	(505)	3,721	2,900
City Development	Martin Farrington	(565)	(171)	171	0	0
Resources & Housing	Neil Evans	(2,223)	(1,931)	1,931	0	0
Communities & Environment	James Rogers	728	3,328	(3,328)	0	0
Strategic	Doug Meeson	(213)	(606)	606	0	0
Total Current Month		(3,449)	10,837	(7,116)	3,721	2,900
Previous month (under)/over spend		(3,846)	5,555	(2,655)	2,900	

4.2. However, actions detailed in section 4.5 of this report relating to ongoing work within the Children and Families directorate together with the identification of a number of one off funding items reduces the projected £3.7m overspend to a balanced position for 2017/18.

4.3. The major variations are outlined below with additional detail provided on the Directorate dashboards which are included as appendix 1 to this report;

4.4. Adults and Health are currently projecting a balanced budget position.

- 4.4.1. Members approved the injection of £14.7m of additional grant (integrated into the Better Care fund) into this budget at the June meeting of Executive Board. This monitoring report assumes that the grant will be fully utilised in year. Members are asked to note that the grant conditions require that the council work with NHS colleagues to consider how the funding can be best spent. Once agreed, the spend proposals will be the subject of a separate, future Executive Board report.
- 4.4.2. The report assumes that £8.0m of the additional £14.7m additional grant will be used to offset an income target set against Health Partners. Post the budget setting it has become apparent that both local and national pressures within the Health Service mean that this target is no longer realistically achievable.
- 4.5. Children and Families – overall at period 4 some significant pressures on the demand-led budgets means that Children’s Services are projecting a £3.7m overspend.
 - 4.5.1. The projected overspend relates to the demand-led children looked after (CLA) budgets after allowing for the release of £0.4m from the demand and demography reserve and actions that the directorate is undertaking to reduce External Residential (ER) and Independent Fostering Agencies (IFA) placements (£700k). Of this overspend £2.0m relates to externally provided residential placements and £1.2m relates to placements with IFAs.
 - 4.5.2. A team has been established within the directorate to target a reduction in the numbers of external residential placements. By bringing children looked after back into the city, this will help deliver better outcomes for these children and in addition help to contain the costs of placements.
 - 4.5.3. Since 2011/12 the Directorate has been on a positive journey in terms of Children Looked After (CLA), moving from a position at the end of March 2012 when the CLA rate per 10,000 children, was well above our statistical neighbours and core city comparator groups, to a position in 2017 where Leeds is on a par with our statistical neighbours and well below the core city average. Overall CLA numbers have reduced from a peak of 1,475 to the current 1,261. Between 2012/13 and 2014/15 the CLA budget was reduced by just under £11m reflecting the ambitions of the turning the curve strategy and indeed the general reduction in CLA numbers over that period. However, since 2015/16 the reduction in CLA numbers has slowed and additional cost pressures have also emerged. In recent years this has been the most significant contributor to the overspend in Children and Families. In 2017/18 the CLA budget was increased by £3m in recognition of this. At the time the budget was determined the general downward movement in CLA numbers suggested that this increase in the budget was reasonable. Since December 2016 overall CLA numbers and costs have increased more than was forecast and now the projected overspend on CLA in 2017/18 is £3.7m.
 - 4.5.4. In order to address the demand led pressures within the CLA budgets, and in recognition that the Children and Families directorate requires additional resources to meet these pressures, provision of £3.7m will be made in year to the Children and Families budget to direct resources to this priority area.

Funding has been identified from the following sources:-

4.5.5. Insurance reserve £1.028m.

The balance on the insurance reserve at 31/3/17 was £2.659m. The 2017/18 budget has contributed a further £1.028m thereby increasing the balance to £3.687m. A review of the insurance fund at quarter 1 has identified that this contribution is unlikely to be required to be used in 2017/18.

4.5.6. Balance Sheet Items £0.55m

The ongoing review of the balance sheet has identified £0.55m of revenue balances that can be brought into account in 2017/18.

4.5.7. Public Health £0.17m

At 31/3/17, and as reported in the final outturn report for 2016/17, public health had borrowed £0.5m from reserves. The 2017/18 provides for repayment of £330k, with the balance to be repaid the following year. However, projected underspends in public health this year mean that the full balance can be paid back in 2017/18 and this facilitates £0.17m of funding to be made available.

4.5.8. A sum of £0.583m is forecast from a redistribution of balances from the business rates pool. This is not included in the Strategic budget and is therefore available to be used.

4.5.9. General reserve £1.39m.

It is proposed to utilise £1.39m from the general reserve to provide funds for the remaining amount required, with the intention that the 2018/19 budget reinstates this amount to General Reserve. Each year the determination of the adequacy of the Council's general reserve takes account of an assessment of financial risks within areas of the Council's budget which may be uncertain. Therefore the calculation of the Council's general reserve provides for a variation within the Children and Families demand led budgets.

4.5.10. After the injection of £3.7m into the Children and Families budget, the revenue budget is now forecast to balance

4.5.11. Members will be aware the sources of funding for this virement are by their very nature one off and therefore not sustainable. As such it is important that the CLA budget in 2018/19 and beyond is adequately resourced. The Medium Term Plan presented to this Board in July included around £4m of additional provision for CLA in 2018/19. In the light of this report, these figures will be reviewed and updated ahead of the Initial Budget Proposals 2018/19 report scheduled for December's Executive Board.

4.6. The Dedicated Schools Grant is also facing a number of budget pressures in 2017/18. As in 2016/17 these are mainly on the High Needs Block in relation to top-up payments and outside placements and some additional costs in relation to the new Social Emotional and Mental Health provision. Whilst a number of savings proposals have been actioned in the High Needs Block budget

including transferring £2m of funding from the Schools Block to the High Needs Block it is currently forecast that there will be an overspend in 2017/18 of between £1m and £2m. The deficit reserve from 2016/17 of £3.6m has also been brought forward to 2017/18. The directorate is undertaking a review of the High Needs Block with the aim of identifying options to bring spend in line with the available resources and to repay the deficit balance over the next few years.

4.7. City Development

4.7.1. The directorate are projecting a balanced budget position at the year-end; however, there are income pressures totalling £0.5m within Asset Management and Economic Development that will be need to be managed through the identification from savings elsewhere in the directorate.

4.8. Communities and Environment

4.8.1. No overall variation is currently projected. Within Waste Management projected overspends of £0.3m due to the non-implementation of inert building waste charges and slippage on the Refuse collection route efficiency programme are largely offset by business rates savings at the RERF. In addition, a staffing overspend of £0.3m is forecast within Customer Access due to the delivery of the Community Hub programme although the directorate will identify actions to bring the overall position back into balance.

4.9. Strategic and Central Accounts.

4.9.1. Based on 16/17 savings from additional capitalisation and saving on the levy payment to the business rates pool will help to offset pressures on S278 (income from developers) and new homes bonus income.

5. Other Financial Performance

5.1. Council Tax

5.1.1. The Council Tax in-year collection rate at the end of July was 37.13% which is in line with the performance in 2016/17. Forecasts show the 2017/18 in-year collection target of 96.1% collecting some £319m of income will be achieved.

5.2. Business Rates

5.2.1. The business rates collection rate at the end of July was 39.36% which is 0.35% ahead of the performance in 2016/17. The forecast is to achieve the 2017/18 in-year collection target of 97.7% collecting some £378m of income.

5.2.2. The opening total rateable value of business properties in Leeds was £915.54m at 1st April. This grew by £1.7m to £917.24m in mid-May, but, following a number of large appeals, has fallen again to £915.89m at 31st July.

5.2.3. To calculate Leeds' actual income from business rates this total rateable value is multiplied by the national business rates multiplier (46.6p in the pound). After reliefs and adjustments this amount is then shared between Leeds City Council (49%), West Yorkshire Fire Authority (1%) and Central Government (50%).

Following deductions for the Business Rates tariff and to meet the business rates deficit brought forward, Leeds' actual business rates income is projected to be in the region of £136.9m, which remains broadly in line with budgeted expectations.

5.3. Business Rates Appeals

- 5.3.1. The opening appeals provisions for 2017/18 was £20.5m, made up of £18.5m relating to appeals received against the 2010 ratings list and £2m estimated costs in advance of appeals being received against the new 2017 ratings list. Under 50% Business Rates Retention, Leeds' budget is affected by 49% of any appeals provision.
- 5.3.2. On 1st April 2017, there were 5,337 appeals outstanding. By 1st July 2017, these had reduced to 4,586 appeals outstanding. During July 346 appeals have been settled, 152 of which have not resulted in changes to rateable values. 15 new appeals were received in July, the low number received reflecting that appeals are no longer accepted against the 2010 list except in very specific circumstances. No appeals have been received to date against the 2017 list.
- 5.3.3. At 31st July there are 4,255 outstanding appeals in Leeds, with 27.7% of the city's total rateable value currently subject to at least one appeal.

6. Procurement Report

- 6.1. Executive Board has previously requested a quarterly update on procurement activity. The report attached at appendix 2 provides information in relation to 2016-17 and the first quarter of the current financial year.

7. Housing Revenue Account (HRA)

- 7.1. At the end of month 4 the HRA is projecting a balanced position against the 2017/18 Budget.

8. Corporate Considerations

8.1. Consultation and Engagement

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

8.2. Equality and Diversity / Cohesion and Integration

The Council's revenue budget for 2017/18 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 22nd February 2017.

8.3. Council Policies and Best Council Plan

The 2017/18 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.

8.4. Resources and Value for Money

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

8.5. Legal Implications, Access to Information and Call In

There are no legal implications arising from this report.

9. Recommendations

9.1. Executive Board are asked to

- (i) Note the projected financial position of the authority as at month 4 and the ongoing work within Children's services to balance the revenue budget;
- (ii) Approve a virement to increase the Children and Families budget by £3.7m to provide resources to fund the additional costs of children looked after. The officer responsible for the implementation of this recommendation is the Chief Officer Financial Services. The virement will be actioned before the next reporting period.
- (iii) Approve the adjustments to the 2016-17 outturn and general reserve following the identification of the two post balance sheet events outlined in the report.

10. Background documents¹

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.