

## Report of the Director of Resources

### Report to Executive Board

**Date: 10<sup>th</sup> February 2012**

**Subject: Financial Health Monitoring 2011/12 - Month 9**

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 members of the financial health of the authority after nine months of the financial year 2011/12 in respect of the revenue budget.
2. The overall projected overspend at month 9 is £0.5m, an improvement of £1.9m from the position at month 8.
3. It is anticipated that a balanced position will be achieved by the year end and general fund reserves carried forward to 2012/13 are estimated to be £24m.
4. At the end of period 9 the HRA is projecting a surplus of £1.3m.

### Recommendations

5. Members are asked to note the projected financial position of the authority after nine months of the financial year 2011/12.

## 1. Purpose of this report

- 1.1 This report sets out for the Board the Council's projected financial health position after nine months of the financial year.
- 1.2 Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget after nine months and comments on the key issues impacting on the overall achievement of the budget for the current year.

## 2. Background information

- 2.1 Members will recall that the net budget for the general fund was set at £582.2m, supported by the use of £2m of general fund reserves and the level of general fund reserves at 31<sup>st</sup> March 2012 was estimated to be £19.4m.
- 2.2 Following the closure of the 2010/11 accounts, the reserves position had been largely achieved with reserves standing at £21.2m at 31<sup>st</sup> March 2011. However, following the resolution of a claim with HMRC regarding the treatment of trade waste, the Council received £8.4m in settlement, including interest. This boosted reserves to £29.6m. Members at their meeting in October 2011 approved the transfer of £3.5m to the early leavers earmarked reserve to meet the severance costs of the scheme and a further £0.1m was earmarked to cover the cost of other potential ongoing VAT claims. It was noted that this additional income was one-off and would enhance the Council's ability to mitigate against some of the spending pressures in the current year, and reduce the impact of the £27m Formula Grant loss in 2012/13.

## 3. Main Issues

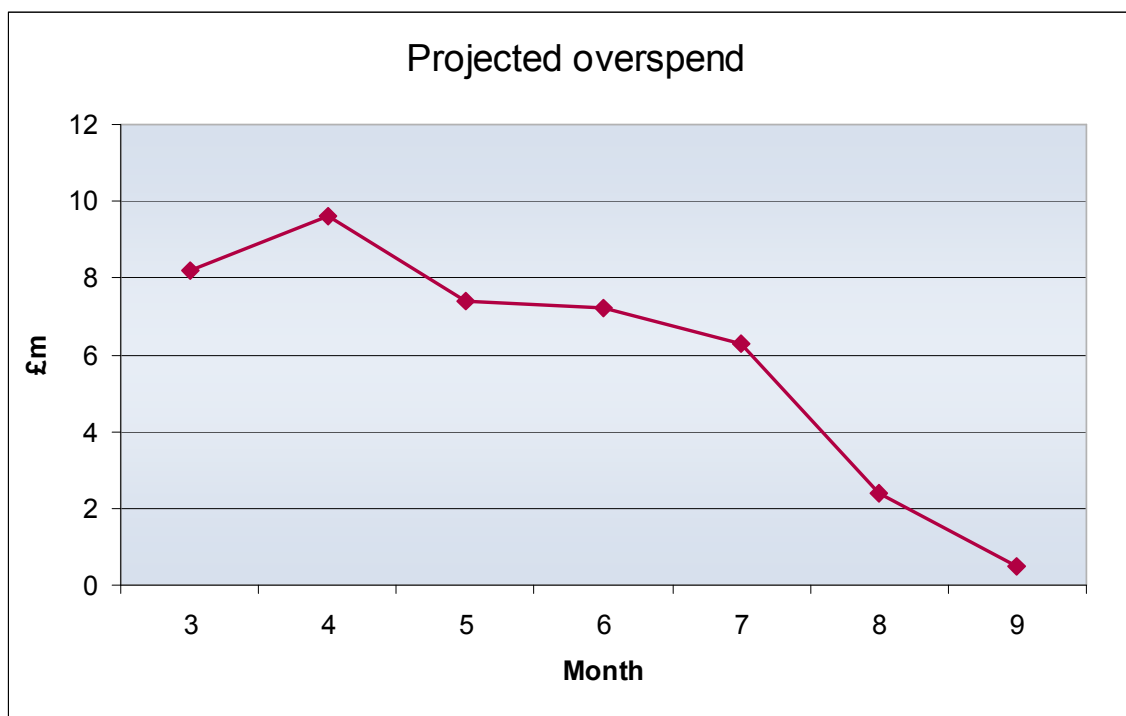
- 3.1 As members will be aware, the 2011/12 budget represented a major financial challenge for the Council, and the loss of government grant plus pressures on spending resulted in the Council needing to identify around £90m of savings.
- 3.2 The overall position at the end of the third quarter is a projected overspend of just £0.5m as detailed in Table 1 below.

Table 1

(Under) / Over Spend for the current period							Previous Month (Under) / Overspend
Directorate	Director	Staffing £000	Other Spend £000	Total Expenditure	Income £000	Total Under /Overspend £000	£000
Adult Social Care	Sandie Keene	(1,084)	2,314	1,230	32	1,262	1,871
Children's Services	Nigel Richardson	(916)	3,484	2,568	1,272	3,840	4,275
City Development	Martin Farrington	181	857	1,038	800	1,838	1,625
Environment & Neighbourhoods	Neil Evans	1,849	(1,162)	687	823	1,510	1,572
Resources	Alan Gay	(246)	1,634	1,388	(1,711)	(323)	(168)
Legal Services	Catherine Witham	742	189	931	(855)	75	314
Customer Access and Performance	James Rogers	(184)	(129)	(313)	78	(235)	(105)
<b>Total</b>		<b>343</b>	<b>7,186</b>	<b>7,529</b>	<b>439</b>	<b>7,968</b>	<b>9,384</b>
<b>Corporate issues</b>							
Debt						(3,300)	(2,800)
Section 278 shortfall						1,800	1,800
Health Service contribution to Adult and Children Social Care						(6,000)	(6,000)
<b>Total</b>						<b>468</b>	<b>2,384</b>

3.3 The 2011/12 budget report recognised that delivering the level of required savings built into the budget would be difficult, and that it did contain a higher level of risks than in previous years. As such it was concluded that the level of risk could only be considered manageable on the understanding that key decisions were taken or that alternative actions to deliver similar levels of savings are identified without increasing the overall risk level within the budget. Overall, the Council has demonstrated its agility in responding to the challenge, and chart 1 below shows how the projected overspend reported to Executive Board has reduced during the year.

Chart 1



3.4 The main issues contributing towards the position at month nine are:

- Adult Social Care – although there is a lower level of demand in residential and nursing care, there is a projected shortfall in the delivery of budgeted procurement savings on residential accommodation. The directorate is now forecasting an overspend of £1.2m.
- Children's Services – there continues to be significant demand-led pressures on the looked after children placement budgets in Children's Services with referrals to Children's Social Care continuing to rise. In 2011/12, the spend on externally provided residential and fostering placements, secure welfare placements, secure remand placements and family assessment placements in total, is forecast to be £26.8m which is £10.2m above the budgeted amount. These pressures have been partly offset by projected savings of £0.6m on in-house fostering allowances and fees budgets, £1.6m distribution of Education Leeds operating surplus and around £2m of costs more properly charged against standards fund grant, resulting in a saving to the

general fund. Other net savings have reduced the overall projected overspend for the Directorate to £3.8m. Work is ongoing to 'turn the curve' on placement numbers and thereby reducing costs, by investing in preventative and early intervention services.

- Income – as a result of the economic climate, some areas of income continue to fall short of budgeted levels, in particular in relation to planning and building regulation fees which are projected to be £0.8m below the budget. There are also shortfalls in income from car parking, £0.6m, and advertising, £0.5m.

- 3.5 Staffing – The 2011/12 budget assumes a reduction in staffing costs compared to 2010/11 of £45m. This is largely being achieved through a combination of a tight recruitment policy and the Early Leavers Initiative which was launched during 2010; these measures together resulted in more than 1,400 staff voluntarily leaving the Council by 31<sup>st</sup> March 2011. There are also further staffing savings to be achieved during 2011/12 which assumes a continued reduction in staffing levels. The payroll strength of the Council was budgeted to reduce further in 2011/12 by 400, and following the launch of a further round of the Early Leavers scheme, 425 leavers have been approved. The one off severance costs of the scheme are forecast to be around £4m in the current year which will be met from the early leavers earmarked reserve. Overall there is a small projected underspend on staffing. However, within Environments and Neighbourhoods there have been particular pressures following delays in the withdrawal of the refuse collection backup service and the cost of staff across the directorate in managing workforce change.
- 3.6 Plans are in place to address the rising cost of looked after children placements in the city. These plans involve relevant partners working together in different ways. In recognition of the significant role the health service plays in this partnership and the improved health outcomes which will arise, NHS Leeds have allocated £2m of transitional funding for 2011/12 in order to support the Council in these matters. In a similar way the health service is working closely with Adult social care to ensure that improved outcomes for older people are sustainable and can be achieved through changes in the way in which services work together and transitional funding of £4m has been set aside to assist the process.
- 3.7 The Department of Health have recently announced national funding for Local Authorities, to be provided by their health authorities, for investment in social care services that also benefit the health system. The sum of £2.159m has been allocated to Leeds and discussions are underway with NHS Leeds on how this can best be utilised.
- 3.8 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 2011/12 revenue budget provides for income of £5.2m for such schemes. A review has been undertaken of anticipated receipts in 2011/12 and there is likely to be a £1.8m shortfall which reflects the continuation of the difficult economic climate.
- 3.9 Capital Financing costs are projected to be £3.3m less than provided for in the budget. At the time the budget was set, economic forecasters predicted that short

term interest rates would begin to rise in 2011/12; accordingly the budget was set on the premise that the Council could no longer rely on a continuation of its policy to borrow short term for a significant proportion of the debt portfolio, and it was assumed that some longer term, higher interest rate borrowing would be taken up in order to protect the Council from the financial risk of rising interest rates. In the event economic predictions are now that short term rates will continue to remain low well into next year and therefore the policy to borrow short term has been maintained, with resulting savings on the revenue budget.

### **3.10 Reserves**

3.10.1 It is anticipated that a balanced position will be achieved by the year end and therefore general fund reserves carried forward to 2012/13 are estimated to be £24m after taking account of the £2m budgeted usage in the current year..

### **3.11 Housing Revenue Account (HRA)**

3.11.1 At the end of Period 9 the HRA is projecting a surplus of £1,309k against the 2011/12 budget. This is primarily due to the projected increase in rents from dwellings (£2,464k) and shops, garages and miscellaneous dwellings (£86k). The additional income from dwelling rents is due to void levels being lower than budgeted and should this continue £1,259k will be paid over to the ALMOs as additional void incentive payments.

3.11.2 Other key income variations from the 2011/12 budget include a reduction in income from Heat Lease charges (£130k) due to less take up than anticipated. In addition £100k of budgeted income from the Solar Panel Scheme will not be received due to the scheme being on hold. This reduction in budgeted income is offset by an additional £233k of telecoms income as a result of new lease agreements and £540k of additional Housing Subsidy being received from Government.

3.11.3 Key expenditure variations include a projected overspend of £882k in relation to recharges. This is primarily due to increased recharges from the General Fund for the Sheltered Warden Service (£167k) and for the Family Intervention Programme, Victim Support scheme and other costs largely relating to the Housing Options function (£476k). Legal charges are projected to be £150k higher than budget due to an ongoing case.

3.11.4 These projected overspends are partially offset by projected net savings against budget of £120k on salaries and wages, £236k on IT due to slippage in the implementation of updates to the Keystone system and £82k in the provision required for disrepair.

## **4. Corporate Considerations**

### **4.1 Consultation and Engagement**

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

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Council's revenue budget for 2011/12 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 23<sup>rd</sup> February 2011.

### **4.3 Council Policies and City Priorities**

- 4.3.1 The 2011/12 budget targeted resources towards the Council's policies and priorities. This report comments on the financial performance against this budget.

### **4.4 Resources and Value for Money**

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

### **4.5 Legal Implications, Access to Information and Call In**

- 4.5.1 There are no legal implications arising from this report. In accordance with part 4 (f) of the Council's Constitution (Budget and Policy Framework Procedure Rules) Executive Board shall be entitled to vire across budget headings subject to value limits set out in the Financial Procedure Rules. There are no requests this month.

### **4.6 Risk Management**

- 4.6.1 The Council has prepared and maintained a financial risk register for a number of years. The register details the risk and consequences, existing controls to mitigate against the risk, the value in monetary terms of the risk, review dates and progress towards managing the risk within existing resources. The register is prepared before the start of each financial year and is monitored on a regular basis.
- 4.6.2 At the start of the year, the budget risk register showed there were 3 very high risks and 10 high risks. The very high risks were:
- Procurement savings within Adult Social Care
  - Independent Fostering Agency Placements
  - Externally provided residential placements

Based on the current projections to year end, there are now no very high risks. The risks for independent sector fostering and externally provided placements have been reassessed as medium risks. The procurements savings in Adult Social Care will not be realised in the current year and the risk has been deleted.

## **5. Recommendations**

- 5.1 Members of the Executive Board are asked to note the projected financial position of the authority after the three quarters of the financial year.

## **6. Background Documents**

- 6.1 Revenue Budget and Council Tax 2011/12 – report to Executive Board 11<sup>th</sup> February 2011.
- 6.2 Financial risk register 2011/12.