

**Report of the Director of Resources**

**Report to Executive Board**

**Date: 18<sup>th</sup> July 2013**

**Subject: Financial Health Monitoring 2013/14 – First Quarter report**

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 three months of the financial year in respect of the revenue budget and the housing revenue account.
2. As members will be aware, 2013/14 is the third year of the Comprehensive Spending Review budget and the reduction in government funding for 2013/14 again presents a significant financial challenge to the Council. It does therefore remain imperative that all actions agreed in the budget are delivered, and should identified savings not be achieved alternative funding options will be needed.
3. Action is taking place across all areas of the Council and it is clear that significant savings are being delivered in line with the budget, but nevertheless at this stage of the financial year an overall overspend of £2.5m is projected.
4. Members are asked to note the projected financial position of the authority after three months of the financial year together with the impact on reserves should directorate spending not be maintained within approved estimates.
5. At the end of the quarter the HRA is projecting a surplus of £0.1m.

**Recommendations**

6. Members are asked to note the projected financial position of the authority after three months of the financial year 2013/14.

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

- 1.1 This report sets out for the Board the Council's projected financial health position for 2013/14 after three 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 three months and comments on the key issues impacting on the overall achievement of the budget for the current year.
- 1.3 A separate report on the capital programme can be found elsewhere on this agenda

## **2. Background information**

- 2.1 Members will recall that the net budget for the general fund was set at £583.9m, supported by the use of £2.5m of general fund reserves.
- 2.2. Following the closure of the 2012/13 accounts, an underspend of £6.7m was achieved and after a transfer of £3.74m to earmarked reserves, an additional £2.9m was added to general reserves, giving year end reserves at 31<sup>st</sup> March 2013 of £23.1m. This figure could change if there are any significant events which occur prior to the sign off of the 2012/13 accounts by external audit. Any variations will be reported to the Corporate Governance and Audit Committee as part of the approval of the final accounts and reported back to this Board as part of the half year financial health report.
- 2.3 Following a complex financial settlement in 2013/14 which not only involved the switching of a number of government funding streams between specific grants and Revenue Support Grant, it also saw the introduction of a local scheme of Council Tax discounts which replaced the national scheme of Council Tax benefit. More significantly it saw the introduction of the Business Rates Retention scheme which represented a fundamental change in the funding of local government.
- 2.4 The reduction in Start Up Funding Assessment (previously Formula Grant) and other grants was £22m with other unavoidable pressures identified at £33m. All directorate budgets contain efficiencies, service reviews and savings which will require actions to deliver, and any delay in taking decisions may have significant financial implications. The overall level of risk within the 2013/14 budgets of directorates is considered to remain relatively high. Whilst this level of risk can be considered manageable, it must be on the understanding that key decisions are taken and that where identified savings are not delivered alternative savings options will be needed. This is all the more important given that the Council will face further financial challenges over the years beyond 2013/14.

## **3. Main Issues**

- 3.1 After three months of the financial year an overspend of £2.5m is projected, as detailed in Table 1 below.

Table 1

<b>(Under) / Over Spend for the current period</b>						
<b>Directorate</b>	Director	Staffing £000	Other spend £000	Total Expenditure £000	Income £000	Total Under/ Overspend £000
Adult Social Care	Sandie Keene	606	(202)	404	129	533
Children's Services	Nigel Richardson	(3,246)	998	(2,248)	3,398	1,150
City Development	Martin Farrington	751	(688)	63	870	933
Environment & Housing	Neil Evans	4	(133)	(129)	129	0
Strategy & Resources	Alan Gay	(133)	33	(100)	100	0
Legal & Democratic Services	Catherine Witham	(6)	(5)	(11)	3	(8)
Citizens & Communities	James Rogers	(56)	151	95	(95)	0
Public Health	Ian Cameron	0	0	0	0	0
Civic Enterprise Leeds	Julie Meakin	168	202	370	315	685
<b>Total</b>		<b>(1,912)</b>	<b>358</b>	<b>(1,554)</b>	<b>4,849</b>	<b>3,295</b>

  

<b>Corporate issues</b>	
Debt Savings	(800)
<b>Total</b>	<b>2,495</b>

- 3.2 The major variations are outlined below and further details can be found in the directorate dashboards which are available as background documents.
- 3.2.1 Staffing – within Children's Services the staffing budgets are forecast to underspend by £3.2m across the general fund, grant funded and central schools budget functions which reflects the number of vacant posts across the Directorate and also the impact of the predominantly internal recruitment market. Partly offsetting this are projected overspends within Adult Social Care, which reflects fewer leavers to date than anticipated, and within City Development particularly in Planning and Sustainability and Sport and Active Recreation.
- 3.2.2 Adult Social Care – whilst there are some underlying demand pressures on the community care placements and home care budgets the assumed growth in personal budgets taken as cash payments is not as high as forecast.
- 3.2.3 Children's Services – the 2013/14 budget strategy included savings of £8m across the looked after children budgets. At this stage in the financial year the projection is that these savings will largely be achieved but with some slippage around reducing the number of externally provided placements (£0.3m) and the delivery of the procurement efficiencies (£0.7m). There are continuing demand pressures of £0.77m in respect of the provision of home to school transport for children and young people with special needs although these are forecast to be mitigated by efficiency savings across the wider transport budgets of £0.5m. The projected income shortfall of £3.4m mainly reflects forecast underspends across services

which are funded by the Central Schools Budget and a potential shortfall on partner funding in respect of externally provided placements.

The Children's Services budget for 2013/14 included anticipated savings of £2.8m in relation to the review of all aspects of home to school transport which is the subject of a separate report to the Executive Board. The financial implication of the recommendations to phase the implementation of the discretionary policy changes would mean a pressure of £2.9m in 2013/14 which is made up of on-going demand pressures of £0.77m, phasing the implementation of the policy changes at £2.8m mitigated by efficiency and provision savings of £0.64m. Implementing the recommendations in the report will enable significant savings to accrue thereafter in 2014/15 and 2015/16. For 2013/14, £0.3m of this £2.9m pressure is already recognised within the Children's Services first quarter position and the Directorate's overall forecast overspend could increase from £1.15m to £3.75m. The Directorate is reviewing what actions it can take to bring its budget back into balance.

3.2.4 Within City Development, there is a projected shortfall in advertising income due to the difficult economic conditions and on Sport income which reflects the reduction on pay and play income experienced in the final quarter of 2012/13. However, these shortfalls are largely offset by plans to reduce expenditure on supplies and services budgets across the directorate and assumes that further savings on staffing will be made by a strict control of recruitment and further ELIs during the year.

3.2.5 The Commercial services budget for 2013/14 reflects a targeted surplus of £9.1m, an increase of £0.8m from last year's budget. However, the 2012/13 outturn surplus for the group came in at £7.1m. Even though this contained a number of one off pressures, the target of increasing the surplus to £9.1m (an increase of £2m against outturn +28%) in 2013/14 represents a difficult challenge. In the current year there is a projected overspend of £0.7m in Civic Enterprise Leeds, reflecting these challenging targets to increase the surplus within Commercial Services and difficulties in realising budgeted savings in the Business Support Centre. However the service is considering all possible options for reducing this projected overspend.

3.2.6 Debt – due to the continuation of low interest rates and the full year effect of slippage in the 2012/13 capital programme, a £0.8m saving on debt charges is projected.

3.2.7 Given the early stage of the financial year, it should be noted that the delivery in full of all budgeted savings and income targets does still carry a degree of risk.

### 3.3 Council Tax and NNDR

3.3.1 As indicated in the 2013/14 Budget Report, the introduction from April 2013 of a scheme of Council Tax discounts does raise additional risks as to collection and the assumed collection rate for Council Tax was reduced from 99.2% to 99% to reflect this additional risk. The collection rate after 3 months of the new financial year is as follows:

- Overall collection rate – 28.03% (28.52% last year)
- Overall collection rate for those affected by Council Tax Support scheme – 20.0%

- Collection rate for those previously getting 100% Council Tax benefit – 17.7%

3.3.2 In terms of NNDR collection, the collection rate at the end of the first quarter is 32.18% which is 0.88% less than the same time last year.

3.3.3 Under the new business rates retention scheme, the Council's local share of business rates is exposed to risks from both collection and reductions in rateable values and also the Council shares its proportion of any losses in respect to rating appeals which may be backdated to prior to the 1<sup>st</sup> April 2013. The position is being closely monitored to identify any significant variations from the budgeted position.

3.3.4 It should be noted that any losses on both Council Tax and NNDR greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current year.

#### 3.4 Social Fund

3.4.1 From April 2013, the discretionary aspects of the Social Fund which provides financial help to people on a low income who need help with extra expenses were devolved to Local Authorities to administer. The Council will receive £2.8m grant funding in 2013/14 together with administration funding of £610k. £2.3m has been allocated to direct awards, and these are being made on an on-going basis throughout the year; as at 24<sup>th</sup> June 2013, spend was approximately £0.2m. The remaining £0.5m has been earmarked for 'Initiative Funding' (as approved by Members) and no awards have yet been made, but 3 bids are pending totalling approximately £0.3m.

### 4.0 Housing Revenue Account (HRA)

4.1 At the end of Quarter 1 the HRA is projecting a surplus of £0.1m. Key variances are detailed below.

- Net additional rental income of £0.4m is projected from dwelling rents. This is due to void levels being 0.5% lower than budget, which if sustained will generate £1m additional income, offset by a reduction of £0.6m in rental income as a result of increasing RTB sales. It should be noted that the £1m additional income from lower voids will be paid to the ALMOs in line with the current voids incentive scheme.
- RTB sales are projected to be 340 (206 more than budget). This level of sales would result in an additional £0.3m of staff time being capitalised.
- There are projected savings of £1m in the contribution to the provision for bad debts due to the introduction of a new methodology for calculating the provision. It is proposed that this is transferred to the Major Repairs Reserve and used to fund additional capital investment priorities.
- It is anticipated that £0.3m of unbudgeted interest will be earned on HRA balances, which is in line with 2012/13.

## **5.0 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 2013/14 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 27th February 2013.

### **5.3 Council Policies and City Priorities**

5.3.1 The 2013/14 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. 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.

### **5.6 Risk Management**

5.6.1 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. The scoring matrix is as follows:

Probability		Impact		
Score	Description	Score	Description	
1	Rare	1	Insignificant	£0-£499k
2	Unlikely	2	Minor	£500-£999k
3	Possible	3	Moderate	£1000-£1499k
4	Probable	4	Major	£1500-£1999k
5	Almost Certain	5	Highly Significant	Over £2m

### Corporate Rating

P	I	Total Score	Corporate Rating
1	1	1	Low
1	2	2	Low
2	1	2	Low
3	1	3	Low
2	2	4	Low
4	1	4	Low
5	1	5	Low
1	3	3	Medium
2	3	6	Medium
3	2	6	Medium
4	2	8	Medium
5	2	10	Medium
2	4	8	High
1	4	4	High
1	5	5	High
2	5	10	High
3	3	9	High
3	4	12	High
4	3	12	High
5	3	15	High
3	5	15	Very High
4	4	16	Very High
4	5	20	Very High
5	4	20	Very High
5	5	25	Very High

5.6.2 The register shows that at the first quarter there are no very high risks and 5 high risks as follows:-

Risk	Key Budget Impacted	P	I	Rating
Health Transformation funding of £3.0m which is assumed in the 2013/14 budget will not be received in full. This is still under negotiation.	Adults/ Children's Services	3	4	High
Reduced independent sector domiciliary care spend through the activities of the reablement service, the expansion of telecare and implementing electronic monitoring may not be fully achieved	Access & Inclusion	3	3	High
External income in Asset Management falls short of the budget assumptions. This includes commercial property rental income, advertising and surveyor and legal fees. Further deterioration in economic conditions could have a significant impact on the income base. The combined budget is £6.13m and the risk is considered to be up to £1.0m	Asset Management	3	3	High
Section 278 Risk that due to economic climate, receipts may not pick up	Strategic	2	4	High
Capital receipts available to pay credit arrangements	Strategic	2	4	High

## 6. Recommendations

6.1 Members of the Executive Board are asked to note the projected financial position of the authority after three months of the financial year.

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

7.1 Directorate dashboards

<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.