

**Report of the Chief Officer Financial Services**

**Report to Executive Board**

**Date: 18th April 2018**

**Subject: Financial Health Monitoring 2017/18 – Provisional Outturn**

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 provisional outturn position for the Authority in respect of both the General Fund revenue budget and the Housing Revenue Account.
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 required 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.
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, and where there are variations, compensating savings have been identified.

5. The provisional outturn for General Fund services is projecting an underspend of £7.9m and the Housing Revenue Account is projected to underspend by £1.5m.

## **Recommendation**

6. Executive Board is asked to:
  - (i) note the Authority's provisional outturn position for 2017/18;
  - (ii) approve the creation of a £0.7m earmarked reserve for the purpose of addressing the backlog maintenance requirements at the Council's sports facilities;
  - (iii) approve the transfer to general reserve of the balance of the backdated Sports admissions VAT receipt; and to
  - (iv) note the letter received from the Ministry of Housing, Communities and Local Government (MHCLG) informing the Council of a £1.1m error in the calculation of the S31 business rate grant for 2018-19 and the intention to write to the Minister in response.

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

- 1.1. This report sets out for the Executive Board the Council's projected financial outturn position for 2017/18.
- 1.2. Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget and highlights the key variations that have determined the projected outturn position for 2017/18.

## **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. 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. For General Fund services the projected outturn for 2017/18 reflects an underspend of £7.86m (1.6%). The increase from the projected underspend of £666k, that was reported to March's Executive Board, is almost entirely due to the receipt of a £7.3m from Her Majesty's Revenue and Customs (HMRC) which represents the overpayment of VAT by the Council for the period June 2012 to September 2017 in respect of admission charges to individuals taking part in sporting activities at the Council's sports facilities. This overpayment was identified following successful legal action taken by the London borough of Ealing against HMRC where it was determined that VAT should not be chargeable on this type of activity.

Table 1

Directorate	Director	(Under) / Over spend for the current period					Month 10 Position
		Staffing	Total Expenditure	Income	To/from Reserves	Total (under) /overspend	
		£000	£000	£000	£000	£000	£000
Adult & Health	Cath Roff	(725)	939	(939)	908	0	0
Children and Families	Steve Walker	639	1,849	(1,428)		421	403
City Development	Martin Farrington	(903)	2,190	(2,190)		0	0
Resources & Housing	Neil Evans	(3,706)	1,025	(1,025)		0	0
Communities & Environment	James Rogers	1,699	2,384	(2,384)		0	0
Strategic	Doug Meeson	18	(2,128)	(6,150)		(8,278)	(1,069)
<b>Total Current Month</b>		<b>(2,978)</b>	<b>6,260</b>	<b>(14,116)</b>	<b>908</b>	<b>(7,857)</b>	<b>(666)</b>
<b>Previous month (under)/over spend</b>		<b>(1,516)</b>	<b>11,148</b>	<b>(11,814)</b>	<b>915</b>	<b>(666)</b>	

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

### 3.3. Adults and Health

- 3.3.1. The Directorate's planned actions to reduce costs, together with lower than anticipated demand pressures relating to the Learning Disability Service and Direct Payments, has resulted in a planned contribution to earmarked reserves rather than the budgeted contribution from earmarked reserves. It is proposed that this is carried forward to address anticipated pressures in respect of residential placements and increased cost pressures on commissioned care contracts.
- 3.3.2. Community care packages (demand led budgets) are projected to cost an additional £0.8m, mainly as a result of agreed care home fees and increased use of supported accommodation.
- 3.3.3. Staffing costs are forecast to be £0.7m below budget, principally in Commissioning Services and general running costs are forecast to be on target.
- 3.3.4. The report assumes that £8.0m of the additional £14.7m additional grant will be used to offset an income target set against Leeds CCG's. Post the budget setting it has become apparent that both local and national pressures within the NHS mean that this target is no longer realistically achievable. The remainder of the £14.7m Spring Budget monies is being used to protect the care market, sustain care packages and reduce social care related pressures in the health service.
- 3.3.5. Though it should be highlighted that there are potential pressures relating to the impact of recent case law on the payments for sleep-ins that may impact on this and future year's finances.

### **3.4. Children and Families**

- 3.4.1. Children and Families are projecting a small overspend of £0.4m at Period 11, although there are a number of variations within the directorate.
- 3.4.2. The increase in the demand for external residential and IFA (Independent Fostering Agents) placements during the autumn has now steadied. Based on current numbers (190 independent fostering and 62 external residential placements), a net variance of around £0.96m is projected. This has increased from £0.86m last period and reflects increased spend on Adoption, Special Guardianship Orders and Residence Orders, but also a reduction in the costs of in-house fostering.
- 3.4.3. Staffing costs are projected to overspend by around £0.63m, an improvement of £0.4m on the Period 10 position.
- 3.4.4. In order to offset these pressures, including a £0.3m pressure on commissioned services, the Directorate is looking to utilise an additional £2.0m of the DfE Partners in Practice funding earlier than profiled and will also maximise external income.
- 3.5. 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 (£2.7m) in relation to top-up payments and outside placements and some additional costs in relation to the new Social Emotional and Mental Health provision, offset by savings in the Early Years Block (£2.3m) and the Schools Block (£0.6m). It is currently forecast that there will be a small underspend in 2017/18 of £0.2m which will reduce the brought forward deficit reserve from 2016/17 of £3.6m. The directorate has undertaken a review of the High Needs Block with the aim of identifying options to bring spend in line with the available resources, as increases due to the High Needs Block National Funding Formula have been capped, and to repay the deficit balance over the next few years. The cap on gains has resulted in the Council receiving an increase of £2m, rather than the £9m suggested by the formula.

### **3.6. City Development**

- 3.6.1. The Directorate continues to project a balanced budget position at the year-end despite incurring £0.4m of additional costs in dealing with recent snowfall. There are income pressures totalling £2.1m, mainly within Asset Management and Economic Development. This is largely offset by an additional £1.2m of Sport VAT income following the legal ruling on Sports admissions, additional net income of £0.2m from Planning and £0.2m from Bridgewater Place.
- 3.6.2. Savings in Employment & Skills staffing are £0.1m and £0.7m of income will be brought into account from the balance sheet.

### **3.7. Communities and Environment**

- 3.7.1. The Directorate continue to project a balanced position, although there are variations within services. The main variations are outlined below.
- 3.7.2. There is a projected shortfall in housing benefit overpayment income of £1.0m, against a budget of £8.4m, following a projected reduction in the number and average value of housing benefit overpayments.
- 3.7.3. Within Customer Access an overspend of £0.7m, mainly in respect of staffing, is forecast due to the delivery of the Community Hub programme and additional security arrangements at sites.
- 3.7.4. Within Waste Management, the Refuse service is projecting an overspend of £1.1m mainly due to slippage on the Refuse collection route efficiency programme. To help offset these pressures there is a net £0.1m from weighbridge income and business rates savings of £0.5m at the RERF. In addition, £0.6m savings in respect of disposal costs and additional recycling income are projected, together with a further £0.5m of one-off savings identified across the Waste Management service, contributing to an overall underspend of £0.5m.
- 3.7.5. Savings in staff costs in other areas of the directorate total approximately £0.6m and other variations across all services of £0.5m.

### **3.8. Resources and Housing**

- 3.8.1. The Directorate continues to project a balanced position although there are some variations within services. Savings in staffing costs will offset pressures of £0.4m within corporate property maintenance and a shortfall in income from court fees of £0.5m.

### **3.9. Strategic and Central Accounts**

- 3.9.1. The Strategic Account projected outturn position for 2017/18 projects an underspend of £8.3m. As referenced in paragraph 3.1 above the Council has received a payment of £7.3m from HMRC in respect of overpaid output VAT in respect of admission charges at the Council's sporting facilities. Of this sum £0.6m relates to the period April 2017 to September 2017 and this sum has been incorporated into City Development's provisional outturn position. The balance of £6.7m, which relates to the period June 2012 to March 2017, is reflected in these Strategic Accounts. In addition a saving of £0.75m is forecast on the Insurance Fund, following a review of the level provision required for dealing with large claims.
- 3.9.2. There are income pressures of £2.1m on S278 (income from developers) and new homes bonus income £1.7m. However, these are offset by additional S31 grant (business rates) of around £3.6m following confirmation of reliefs. This grant is to recompense for the reduction in business rate income resulting from reliefs. In addition a saving of £0.8m in the levy payment to the pool is forecast along with a £0.7m saving on debt costs largely resulting from the receipt of accrued income on a deferred developer contribution.

- 3.9.3. It is proposed that £700k of the VAT refund received from HMRC in respect of overpaid output VAT on admission charges at sports facilities is used to create an earmarked reserve for the purpose of contributing towards addressing the backlog maintenance requirements at the Council's sports facilities.
- 3.10. Members will be aware that the budget report to Council in February 2018 identified an indicative funding gap of around £70m for the period 2019/20 to 2020/21. Given this gap it is proposed that the balance of the saving from receipt of backdated VAT income be allocated to General Fund reserve at the end of 2017/18 and be used to support the Council's Medium Term Financial Strategy.
- 3.11. On March 20th 2018 the Council received a letter from the Ministry of Housing and Local Government (MHCLG) informing us that Government had identified an error in the methodology they have used to calculate S31 business rate grants. The error specifically applies to Councils' who are in 100% pilots in 2017-18 and 2018-19 and relates to the compensation paid to Councils for the loss of business rates income following the government decision to cap the business rates multiplier in the years 2013/14, 2014/15 and 2018/19.
- 3.12. Government has indicated they do not intend to recover monies relating to 2017-18 (no effect for Leeds as the 100% pilot commences in 2018/19); however they do intend to recover the error relating to the upcoming financial year 2018-19. The estimated cost of this error to Leeds is £1.065m and approximately £3.6m across the wider City Region.
- 3.13. The 2018/19 revenue budget includes the receipt of the £1.065m grant. As a result the Council, along with its City Region partners will be writing to the Minister to express the disappointment of the proposed action and remind government of the fact the Council's budgets have already been set for 2018/19.
- 3.14. **Reserves**
- 3.14.1. Table 2 below shows the projected position on the Council's General reserve after taking into projected outturn position for 2017/18 which is detailed in this report.

*Table 2*

<b>General Reserve</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£m</b>	<b>£m</b>
Brought Forward 1st April	20.0	25.8
Release to Children Looked After Budget	(1.4)	
Forecast 17/18 outturn variation	7.2	
Budgeted Contribution to reserve 18/19		1.0
Carried Forward 31st March	<b>25.8</b>	<b>26.8</b>

### **3.15 Early Leaver's Initiative**

- 3.15.1 The Council has operated a voluntary retirement and severance scheme since 2010/11 which has contributed to a reduction in the workforce and subsequent savings which have contributed towards the Council balancing its books. In 2017/18 approval has been given for 114.45 FTE's to leave the Authority through the Early Leaver's Initiative and this will generate savings of £12m over the five year period up to and including 2022/23.

## **4. Other Financial Performance**

### **4.1. Council Tax**

- 4.1.1. The Council Tax in-year collection rate at the end of February was 93.31%, slightly below the performance in 2016/17, however forecasts show the 2017/18 in-year collection target of 96.1% collecting some £322.6m of income will be achieved.

### **4.2. Business Rates**

- 4.2.1. The business rates collection rate at the end of January was 94.43% which is slightly ahead of performance in 2016/17. The forecast is to achieve the 2017/18 in-year collection target of 97.7% collecting some £372.0m of income.
- 4.2.2. The opening total rateable value of business properties in Leeds was £915.54m at 1<sup>st</sup> April. This grew by £1.7m to £917.24m in mid-May, but, following a number of Valuation Office reductions, had fallen to £914.77m at 30<sup>th</sup> September. At 28<sup>th</sup> February the list has recovered and exceeded the growth experienced in the early part of the year and stands at £920.2m.
- 4.2.3. To calculate Leeds's 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's actual business rates income is projected to be in the region of £132.1m, which is lower than the budget requirement of £142.9m and may impact further on the Collection Fund deficit. The position on the Collection Fund deficit is kept under constant review as deficits are carried forward and impact on the resources available in the following year.

### **4.3. Business Rates Appeals**

- 4.3.1. The opening appeals provisions for 2017/18 was £25.0m, made up of £23.0m 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's budget is affected by 49% of any appeals provision.
- 4.3.2. On 1<sup>st</sup> April 2017, there were 5,337 appeals outstanding. By 1st February 2018, these had reduced to 2,855 appeals outstanding. During February 170 appeals have been settled, 97 of which have not resulted in changes to rateable values.

5 new appeals were received in February, 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.

- 4.3.3. At 28<sup>th</sup> February there are 2,690 outstanding appeals in Leeds, with 24.8% of the city's total rateable value currently subject to at least one appeal.

## **5. Housing Revenue Account (HRA)**

- 5.1 The provisional outturn position in respect of the Housing Revenue Account is projecting an underspend of £1.5m. This is largely due to an underspend on staffing and a reduction in required contribution to bad debt provision. It is proposed that the projected underspend be used to reduce the budgeted contribution from the welfare reserve (£0.5m) and set aside an additional £1m to increase the level of resources available to put sprinkler systems into the Council's multi storey blocks.

## **6. Corporate Considerations**

### **6.1. Consultation and Engagement**

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

### **6.2. 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 22<sup>nd</sup> February 2017.

### **6.3. 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.

### **6.4. 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.

### **6.5. Legal Implications, Access to Information and Call In**

There are no legal implications arising from this report.

## **7. Recommendations**

### **7.1. Executive Board is asked to**

- (i) note the Authority's provisional outturn position for 2017/18;

- (ii) approve the creation of a £0.7m earmarked reserve for the purpose of contributing towards addressing the backlog maintenance requirements at the Council's sports facilities;
- (iii) approve the transfer to general reserve of the balance of the backdated Sports admissions VAT receipt; and to
- (iv) note the letter received from the Ministry of Housing, Communities and Local Government (MHCLG) informing the Council of a £1.1m error in the calculation of the S31 business rate grant for 2018-19 and the intention to write to the Minister in response

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

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.