

Report of the Deputy Chief Executive

Report to Executive Board

Date: 22nd June 2016

Subject: Financial Health Monitoring 2016/17 – Month 2 (May 2016)

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 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. 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 is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without significant changes in the way the Council operates. For the period 2017/18 to 2019/20, the estimated budget gap is around £90m, of which some £60m is front-loaded into 2017/18.
4. This is the first budget monitoring report of the year, and 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. At this early stage of the financial year, it is clear that

the majority of these actions are on track to be delivered, however this report highlights a potential overall overspend/risk of £3m, although it should be noted that measures are being put into place to reduce this figure.

5. At month 2, the Housing Revenue Account is projecting a balanced budget position.

Recommendation

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

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 at month 2.
- 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 2016/17 was set at £496.4m, supported by the use of £3.5m of general reserves.
- 2.2 Following the closure of the 2015/16 accounts, an underspend of £0.4m was achieved. This represented a marginally better position than the assumptions made when setting the 2016/17 budget.
- 2.3 The balance of general reserves at the end of March 2016 was £21.3m and when taking into account the budgeted use of £3.5m in 2016/17 will leave an anticipated balance at March 2017 of £17.8m.
- 2.4 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.
- 2.5 This first monitoring report in 2016/17 is intended to highlight the potential risks at an early stage in the financial year. A more detailed quarter 1 report, including financial dashboard information for all directorates, will be presented to the July meeting of the Executive Board.
- 2.6 Looking beyond 2016/17, the estimated funding gap for the period 2017/18 and 2019/20 is around £90m of which £60m is front-loaded into 2017/18. This estimated funding gap recognises the Government's assessment of Core Spending Power for Leeds and therefore assumes Council Tax increases of 1.99% and Adult Social Care precept increases of 2% in 2017/18, 2018/19 and 2019/20.
- 2.7 A report will be brought to the Executive Board in September 2016 to update the medium-term financial strategy to take into account the implications of the

government's 4-year funding offer, potential increasing funding from local taxation and income, the impact of increasing demand and cost pressures and ultimately what actions and decisions will need to be taken in order to stay within the available financial resources.

3. Main Issues

3.1 After two months of the financial year an overspend of £3m is projected, as shown in Table 1 below.

Table 1

		(Under) / Over spend for the current period			
Directorate	Director	Staffing	Total Expenditure	Income	Total (under) /overspend
		£000	£000	£000	£000
Adult Social Care	Cath Roff	(2,470)	(668)	860	192
Children's Services	Nigel Richardson	(500)	4,900	(1,300)	3,600
City Development	Martin Farrington	(100)	(140)	(70)	(210)
Environment & Housing	Neil Evans	0	0	0	0
Strategy & Resources	Alan Gay	(338)	(338)	338	0
Citizens & Communities	James Rogers	0	0	0	0
Public Health	Dr Ian Cameron	0	0	0	0
Civic Enterprise Leeds	Julie Meakin	1,185	2,392	(2,392)	0
Strategic & Central	Alan Gay	0	(114)	(487)	(601)
Total Current Month		(2,223)	6,032	(3,051)	2,981

3.2 The major variations are outlined below;

3.2.2 Adult Social Care - the directorate is currently projecting an overspend of £0.2m. Some slippage has been identified in delivering budget action plans totalling £0.5m, but at this early stage in the financial year most are projected to be achieved over the remaining months. There is some slippage in delivering specific actions for savings of £0.3m within the learning disability community care packages budget. Slippage of £0.2m relates to the ongoing Better Lives programme within older people's residential and day care services. In addition, there is a potential pressure of £1.7m (0.9%) around community care packages with the main variation relating to residential and nursing care placements which reflects the demand trends in the last quarter of 2015/16 and a higher number of residents at the start of the current financial year than was assumed when the budget was set. Also, spend on the learning disability pooled budget is higher than budgeted, which again reflects the impact of the trend in spend in the last quarter of 2015/16 and also some slippage in delivering the 2016/17 budgeted savings. These increases are partly offset by savings in the direct payments budget, which is projected to be slightly lower than budgeted.

Staffing – savings of £2.5m (around 4%) are forecast. Savings within Access and Care Delivery total some £1.3m, mainly reflecting reducing staffing numbers within the Community Support Service since the budget was set and vacancies within the care management and business support services. Savings of £1.2m are projected in commissioning services, resources and strategy and health and well-being due to ongoing vacancies.

3.2.3 Children's Services – overall at month 2 some significant pressures on the demand-led budgets means that Children's Services are projecting to spend over the budget by £3.6m. The main budget pressure is in the demand-led children in care budgets with a potential £5m risk of which £3.5m relates to externally provided residential placements and £1.5m relates to placements with Independent Fostering Agencies (IFAs). Since 2012/13 there has been a significant reduction in both numbers and costs of these placements. Currently there are 1,250 children looked after, which includes 61 external residential placements and 231 IFA placements. During the first half of 2015/16 there was a continued reduction in placements but towards the end of the year there was an increase in the number of external residential placements and so far this trend has continued into 2016/17. Part of the increase in demand results from the increased emphasis for 'Staying Put' included in the Children and Families Act which has seen an increase in the length of IFA placements. Various actions initiated by the directorate are anticipated to result in placement numbers reducing during the year although they are unlikely to fall to the level assumed in the budget.

A further pressure is around transport where a rise in the number of children and young people requiring education outside the city and in their complexity of need has resulted in a £1.7m potential pressure against the budget.

The directorate has committed to a number of actions to mitigate against these budget pressures including additional controls on recruitment, looking at opportunities to reduce staffing spend, opportunities for additional income, reviewing contracts and a line by line review of all areas of spend to mitigate against the projected overspend. Savings of £2m from these actions are included in the projection. There is a risk that this level of savings will not be realised but the position will be closely monitored.

3.2.4 Strategic & Central budgets – the potential £0.6m underspend highlighted at month 2 reflects a potential £0.4m saving against the levy payment to the business rates pool and also the transfer of £0.7m from the Capital Reserve to offset a potential pressure of £0.4m in respect of the debt budget.

3.3 Other Financial Performance

3.3.1 Council Tax

The Council Tax in-year collection rate at the end of April was 10.2% which is in line with the performance in 2015/16. At this early stage the forecast is to achieve the 2016/17 in-year collection target of 95.9% collecting some £299m of income.

3.3.2 Business Rates

The business rates collection rate at the end of April was 10.76% which is 0.89% ahead of the performance in 2015/16. The forecast is to achieve the 2016/17 in-year collection target of 97.7% collecting some £388m of income.

4. Housing Revenue Account (HRA)

4.1 At the end of month 2 the HRA is projecting a balanced position against the 2016/17 Budget.

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 24th 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.

6. Recommendations

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

7. Background documents¹

7.1 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.