

Report of the Chief Officer Financial Services

Report to Executive Board

Date: 27th June 2018

Subject: Financial Health Monitoring 2018/19 – Month 2 (May 2018)

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 for the first two months of the financial year.
2. The 2018/19 financial year is the third 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 2018/19 requires the Council to deliver a further £34m 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. This is the first budget monitoring report of the year, and Executive Board will recall that the 2018/19 general fund revenue budget, as approved by Council provides for a variety of actions to reduce net spend through the delivery of £34m of budget action plans by March 2019. 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 of £2.2m and measures will be required to be identified and implemented so that a balanced budget position can be delivered.

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 2018/19 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 2018/19 was set at £510.9m.
- 2.2 Following the closure of the 2017/18 accounts, an underspend of £7.0m was achieved and this has been added into the Council's general reserves. This contribution to the Council's reserves had not been budgeted for in 2016/17.
- 2.3 The balance of general reserves at the end of March 2017 was £20.1m and when taking into account the budgeted use of £1.4m in 2016/17, and the contribution from the underspend in 2017/18, this leaves a balance at March 2017 of £25.6m.
- 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 2018/19 is intended to highlight any known variations to the approved budget 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 2018/19 a report is timetabled to be considered at Executive Board in July and this will provide an update to the medium-term financial strategy. This will take account of the final year of the government's 4-year funding settlement, the move to greater business rate retention, 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 anticipated financial resources.

3. Main Issues

- 3.1 After two months of the financial year an overspend of £2.2m is projected, as shown in Table 1 below.

Table 1

Summary Position - Financial Year 2018/19

Reporting Period Month 2

		(Under) / Over spend for the current period			
Directorate	Director	Staffing	Total Expenditure	Income	Total (under) /overspend
		£000	£000	£000	£000
Adults & Health	Cath Roff	(819)	(367)	367	0
Children and Families	Steve Walker	12	812	100	912
City Development	Martin Farrington	(1,404)	(665)	665	0
Resources & Housing	Neil Evans	(1,485)	(775)	775	0
Communities & Environment	James Rogers	12	(25)	25	0
Strategic	Doug Meeson	0	585	700	1,285
Total Current Month		(3,684)	(435)	2,632	2,197

- 3.2 The major variations are outlined below;

- 3.2.1 **Children and Families** – Whilst still early in the financial year there are a number of budget pressures that mean it will be challenging for the directorate to contain spend within the approved budget without additional saving proposals being identified, agreed and implemented. The projected year-end position is an overspend of £0.9m. This is significantly lower at this stage than in recent years and reflects the increases made to the Children and Families budget, particularly demand-led budgets, over the last two years.

As in previous years the main budget pressure is likely to be on the demand led budgets of Children Looked After (CLA) and transport. Whilst the CLA budget has been increased by £8m over the last two years there are still significant demand and demography pressures on this budget that are resulting in an upward pressure in terms of costs. External Residential (ER) and Independent Fostering Agency (IFA) placements are both currently higher than the budgeted assumptions although the variance is much lower than in previous years. The directorate has agreed a number of actions including reviewing ER placements in order to ensure that placements are still appropriate. The number of children in ER placements has already reduced from 66 to 62 from the start of the financial year. The ER budget is projected to overspend by £0.8m but there remains a risk that numbers do not reduce as assumed.

The current projection assumes that spend on transport will be within budget but there is a risk that continuing demographic pressures contribute to an overspend on this budget.

The 2018/19 budget included savings of £5m. All the actions are being implemented and are expected to deliver the required level of savings.

3.2.2 Strategic & Central Accounts - At Month 2, the Strategic & Central budgets have a projected overspend of £1.3m. The key variations are:

- a projected overspend of £0.6m in debt costs, mainly due to higher interest rate assumptions than those assumed at the time the budget;
- a projected net shortfall of £0.4m in S31 grant income for business rates, due to changes in the calculation methodology after the 2018/19 budget had been set, offset by estimated additional S31 grant income; and
- a projected shortfall of £0.3m in New Homes Bonus.

3.3 Other Financial Performance

3.3.1 Council Tax

The Council Tax in-year collection rate at the end of April was 10.27% which is in line with the performance in 2017/18. At this early stage the forecast is to achieve the 2018/19 in-year collection target of 96.1% collecting some £338m of income.

3.3.2 Business Rates

The business rates collection rate at the end of April was 10.86% which is 0.22% behind the performance in 2017/18. The forecast is to achieve the 2018/19 in-year collection target of 97.7% collecting some £384m of income.

The total rateable value of business properties in Leeds has increased from £921.06m at 1st April to £923.25m at the month end, growth of £2.19m. To calculate Leeds' actual income from business rates this total rateable value is multiplied by the national business rates multiplier (48.0p in the pound). After reliefs and adjustments this amount is then shared between Leeds City Council (99%) and West Yorkshire Fire Authority (1%). 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 £204.86m, which is slightly below budgeted expectations.

3.3.3 Business Rates Appeals

The opening appeals provisions for 2018/19 is £21.5m which is made up of £11.5m relating to appeals received against the 2010 ratings list and £10m estimated costs in relation to the 2017 ratings list. Under the 100% Business Rates Retention pilot, Leeds' budget is affected by 99% of any appeals provision made in this year but provisions brought forward from 2017/18 were made at 49%.

On the 1st April 2018, there were 2,628 appeals outstanding against the 2010 ratings list. During April 87 appeals have been settled, of which 50 have not resulted in changes to rateable values, and 7 new appeals have been received. 7 new appeals were received in April, the low number received reflecting that appeals

are no longer accepted against the 2010 list except in very specific circumstances. At 30th April there are 2,548 outstanding appeals in Leeds, with 23.5% of the city's total rateable value in the 2010 list currently subject to at least one appeal. No appeals have been received to date against the 2017 list.

4. Housing Revenue Account (HRA)

4.1 At the end of month 2 the HRA is projecting a balanced position against the 2018/19 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 2018/19 was subject to Equality Impact Assessments where appropriate and these can be seen in the papers to Council on 21st February 2018.

5.3 Council Policies and Best Council Plan

5.3.1 The 2018/19 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.

