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**Report of the Director of Resources**

**Executive Board**

**Date: 5<sup>th</sup> November 2008**

**Subject: Financial Health Monitoring 2008/09 – Half Year Report**

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**Electoral wards affected:**

**Specific implications for:**

Ethnic minorities

Women

Disabled people

Narrowing the gap

Eligible for call In

Not eligible for call in

(details contained in the report)

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**Executive Summary**

1. The purpose of this report is to inform members of the financial health of the authority after six months of the financial year in respect of the revenue budget, Housing Revenue Account and capital programme.
2. Directorates are projecting an overspend of £5.3m at this stage. Major variations are detailed in the report and a number of budget adjustments are proposed.
3. The report also identifies other potential council wide pressures although funding sources have been identified. All other budget pressures are to be addressed by directorates who are required to continue to develop and implement action plans to manage identified pressures within available resources.
4. In addition the report provides an update on the capital receipts position.
5. Members are asked to note the projected financial position of the authority after six months of the financial year and the proposed actions to mitigate against budget pressures, together with the impact on reserves should directorate spending not be maintained within approved estimates.

## **1. PURPOSE OF REPORT**

- 1.1 This report sets out for the Board the Council's financial health position for 2008/09 after six months of the financial year. The report covers revenue expenditure and income to date compared to the approved budget, the projected year end position and proposed actions to work towards achieving a balanced budget by the year end. In addition it provides an update on the general fund capital programme and also highlights the position regarding other key financial indicators.

## **2. BACKGROUND INFORMATION**

- 2.1 Members will recall that the net budget<sup>1</sup> for the general fund was set at £540.5m, which provided for a contribution of £5.1m from reserves. As a result, the level of general fund reserves at 31<sup>st</sup> March 2009 are estimated to be £12.0m.
- 2.2. As reported in the 2007/08 outturn report<sup>2</sup> to Board in June 2008, the net contribution to General Fund reserves was £0.3m in excess of the budget and Board approved the transfer of this to bolster the 2008/09 Contingency Fund.

## **3. MAIN ISSUES**

- 3.1 After six months of the financial year, directorates are projecting an overspend of £5.3m. It is important that budget pressures are addressed by directorates who are required to continue to develop and implement action plans to manage these pressures within available resources.
- 3.2 However, further debt savings of £3.4m have been achieved through proactive treasury management and interest on revenue balances. In addition, it is likely that the Council will receive a share of the £100m contingency for LABGI which the government retained, pending of the outcome of legal challenges. This could be up to £2m.
- 3.3 The extent to which action plans are not effective in containing spending within approved estimates will impact on the Council's reserves, which are already estimated to be at the minimum level required under the risk based reserves strategy.
- 3.4 The main variations are as follows:
- 3.4.1 Income Variations

The City Development directorate is continuing to feel the effect of the economic downturn through a shortfall of over £2.5m from a number of external income sources, including planning and building fees, rental income, markets income, surveyor and legal fees and Sport income. Budget action plans, which include reductions in staffing, have been implemented in Asset Management, Planning and Sport to reflect the downward trends in income.

It is not now envisaged that any income will be generated from the sale of surplus Landfill Allowance Trading scheme allowances as there is no market for them in the current financial year. It is therefore proposed to fund the pressure of £0.6m from savings in capital financing costs.

As reported in the first quarter, a decline in the number of land searches requested has resulted in a forecasted shortfall in income, partly offset by reduced costs associated with carrying out searches. The net effect of this is an overspend of £0.5m.

Housing Benefit caseload has increased by 1,088 between August 2007 and August 2008 largely due to implementation of the 'local housing allowance' in April 2008. The projected increase in benefits paid is £8.9m compared to budget, which is 100% funded by government grant. However, the value of overpayments identified has reduced during this period, reflecting trends experienced by a number of other local authorities, meaning that budgeted income will not be met by an estimated £350k.

As reported in the first quarter financial health report, the number and value of older peoples social care services that have been submitted to and deemed eligible by the Supporting People Commissioning Body is unlikely to be sufficient to generate the budgeted level of funding. An action plan has been developed to mitigate against some of this pressure, however it is anticipated that there will still be a shortfall of £1.5m which is proposed to be met from savings on Community care packages in respect of fully funded NHS continuing care.

Within Children's Services, additional income of £0.15m is projected in Children's Centres.

#### 3.4.2 Demand Variations

Outside Placement costs continue to be a major pressure on the Children's Services budget and are now projected to be £1.7m overspent, although this is largely offset by projected savings of £1.0m on the in-house fostering budget. The cost of Public Law Fees is projected to be £0.5m higher than the amount allocated from central government. However, the Council is taking a leading role on a judicial review to challenge the additional burden it places on local authorities.

It was noted in the quarter one report that the Adult Social Care Directorate anticipated higher than budgeted nursing care packages transferring to fully funded NHS Continuing Care. The pace of reviews has increased in recent months and the current projection for Community Care packages is an underspend of £1.5m. It is proposed to use this saving to fund the pressure on Supporting People.

As reported in the first quarter, the Elections Service is projected to be £0.4m overspent reflecting increased activity in the service.

In order to pump prime a new model of Occupational Service provision for the Council, whereby core occupational services are delivered in-house and other services jointly procured with other local authorities, the projected costs in 2008/09 of £0.2m are to be funded from savings within the Resources directorate. It is envisaged that the new service will contribute to a reduction in sickness absence generating significant savings in future years.

#### 3.4.3 Staffing

Overall staffing savings are £1.2m at the half year, projected to be £1.9m at the year end. This compares to a projected underspend of £2.9m from the first quarter, a reduction of £1m. This change since the first quarter is mainly within the Adult Social Care budget, although at quarter two this directorate's staffing projection is only £0.2m above budget provision. The main movements since quarter one relate to overtime and agency staff costs. The achievability of budgeted service transformation savings that impact on the staffing budget has been revised at the half year and some additional slippage is included. Contingency actions have been reflected in the projections for some non-staffing budgets which partly offset this impact on staffing.

Of the overall projected saving, £0.8m is within Children's Services which reflects the ongoing capacity issues and difficulties in recruitment and retention.

Within Resources Directorate, staffing savings of £1.0m are projected, mainly in the support service areas of Financial Management, Corporate HR, Corporate Property Management and the Business Support Centre. An element of the saving is due to the non-filling of vacancies pending implementation of new structures in Financial Management and Corporate Property Management.

The staffing budget within City Development assumes that further savings will be made by continuing to closely manage recruitment, particularly to reflect the downward trends in income. A £0.5m underspend is projected.

Within Environment and Neighbourhoods there is a projected overspend of £0.3m on staffing within the Jobs and Skills service which reflects the current position in terms of re-aligning the service.

#### 3.4.4 Other

The above projections do not include other potential pressures relating to the cost of the additional pay award over the 2% provided for in the budget. The latest offer is 2.45% which would cost an additional £2m to general fund services. It is proposed to fund this from capital financing savings although any settlement above this offer will have to be met by directorates.

The impact of the new gas contract is an increase of 37% which equates to a pressure of £0.9m for general fund services in the current year. In addition, the new Street Lighting energy contract is projected to cost an additional £0.7m in the current year, although provision of £0.25m had been made for this by the directorate.

It is proposed to fund the new energy contracts from remaining capital financing savings and contingency fund.

### **4.0 HOUSING REVENUE ACCOUNT**

4.1 At the end of the second quarter, the HRA is projecting an underspend of £2.436m comprising £1.936k operating surplus and £0.5m additional contribution to the Swarcliffe PFI sinking fund.

4.2 Void levels for the first six months continue at around 1.5%, which if maintained should generate additional rental income of £1.3m; the corollary of this is that £0.7m of this income will be paid over to the ALMOs as additional incentive payments. The fall in Right to Buy (RTB) numbers during 200708 has also resulted in higher opening property numbers than budgeted, and this factor together with the continued decline in RTB numbers projects further contributions to rental income of £1.2m.

4.3 One off payments of £0.19m and £0.08m will be paid to the ALMOs to compensate for additional SLA cleaning costs and an additional grass cut.

4.4 The compression of the timetable for the Little London and Beeston & Holbeck PFI schemes is projected to result in budgetary pressures this year. Additional resources of around £0.55m are forecast for this year to facilitate the joint procurement of these two PFI schemes e.g. planning fees, site costs etc.

4.5 Based upon write-offs and arrears levels in quarter two, early indications for the bad debts provision suggest £1.3m may be required against the budgeted figure of £1.575m, a projected underspend of £0.3m. Projections for the disrepair provision indicate a lower budget provision of £0.59m against current budget provision of £0.62m.

4.6 Other additional income areas include £0.1m from leaseholders for major repair works, and £0.3m bad debts penalties arising from the performance of the ALMOs and BITMO on debt recovery.

## **5.0 CAPITAL PROGRAMME**

5.1 Executive Board on 8<sup>th</sup> October approved changes to the general fund capital programme. These changes were required to address the high level of overprogramming as a result of changes to the capital receipts forecast. The effect of these was to reduce the overprogramming from £88.3m to £36.4m over the four year period to 2011/12.

5.2 In the present economic circumstances resourcing the Council's capital programme continues to be very challenging and further pressure on capital receipts are forecast. Further work is ongoing to review the capital programme and a report will be brought back to Executive Board.

## **6. PERFORMANCE STATISTICS<sup>1</sup>**

6.1 The level of Council Tax collected at the end of September 2008 is 55.78% of the debit for the year of £249.6m. This is slightly behind the same period last year. The target set by Executive Board for the year is 96.65% and performance against this is being closely monitored.

6.2 The collection of non-domestic rates for the first six months is 61.48% of the current net debit of £322.6m, which is slightly ahead of the same period last year. Again, performance against the target of 98.6% is being closely monitored.

6.3 In terms of Sundry income collection rate at the end of June is 81.0% of the amount due of £56.1m. This is slightly down on last year's figure of 82.4%. As with the other targets this is being closely monitored and there is no concern at this stage that the target will not be met.

## **7. RECOMMENDATION**

7.1 Members of the Executive Board are asked to

- Note the projected financial position of the authority after six months of the new financial year
- Request that directorates continue to develop and implement action plans.
- Recommend to Council the budget adjustments as described in section 3.

## **BACKGROUND**

<sup>1</sup> Revenue Budget and Council Tax 2008/09 – report to Executive Board 8<sup>th</sup> February 2008

<sup>2</sup> Financial Performance – Outturn 2007/08 – report to Executive Board 11<sup>th</sup> June 2008

