

Financial Health Monitoring 2023/24 – Month 5 (August)

Date: 18th October 2023

Report of: Chief Officer - Financial Services

Report to: Executive Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

1. The purpose of this report is to update the Executive Board of the financial position at the end of the first five months of this financial year and the work underway to balance the budget. The report comments on performance against the 2023/24 Budget which targets resources in support of the council's strategic priorities as set out in the Best City Ambition, whilst also supporting our ongoing journey to strengthen the authority's financial resilience and sustainability. It also updates the Board on the latest position on the Housing Revenue Account (HRA) and Council Tax and Business Rates Collection Fund. For full details, please refer to **Appendix A**.
2. As at the end of August 2023/24, we are forecasting an overspend of £29.6m for the General Fund (5.2% of the 2023/24 approved net revenue budget), an improvement from the previous month's £33.9m overspend reported to this Board in September. Where known, pressures have been incorporated into the reported financial position, including those due to increased inflation and the resulting cost of living crisis, demand and demography in social care, and the employer's final pay offer for 2023/24 (which, at the time of writing, has not been accepted).
3. The budget for 2023/24 requires delivery of £58.6m of savings and as at Month 5, it is anticipated that most of these budgeted savings will be delivered or mitigating actions found. However, a £12.0m shortfall has been identified primarily due to the significant pressures within Children's social care. This is included within the £29.6m overspend being reported today, with further details provided in the appended directorate positions.
4. The overspend needs to be understood within the wider national context: local government finances are in a critical state and there is growing concern as an increasing number of councils are reporting overspends in the current financial year and significant estimated budget gaps in future financial years which provide a challenge to their financial sustainability. The increasing cost of social care, particularly within Children's Services where the significantly higher costs resulting from increasing numbers of children in care, combined with the impact of pay and price pressures which are in excess of the level of government resources provided, has not yet been recognised. As a result, a number of local authorities issuing or raising the possibility of issuing Section 114 notices, effectively giving notice that a council cannot balance its budget. This current and future financial climate for local government represents a significant risk to Leeds City Council's priorities and ambitions.
5. Within Leeds, work continues to review the highest cost / spend areas (notably Children Looked After, Transport and Leeds Building Services) and all services are continuing to explore opportunities to secure in-year savings (such as holding vacancies where this will not have a detrimental effect on critical services and on staff wellbeing) and maximising income. Asset reviews are underway to ensure the council has the right numbers and mix of assets. The freeze on recruitment, agency and overtime spend introduced in 2022/23 within a framework of agreed exceptions remains in place, as does the freeze on non-essential spend, with further controls brought in to strengthen oversight and monitoring. Using our Team Leeds approach, working across the council and with partners, we will continue to take all action necessary to meet our legal requirement to deliver a balanced budget.

6. Any adverse variation to a balanced budget position at the year-end will require further savings to be identified for 2024/25. In addition, any Collection Fund income shortfall arising this year will impact on next year's revenue budget. (Please refer to the '*Revenue Savings Proposals*' report elsewhere on today's agenda for further information about the future years' financial position.)
7. At the time of writing, the West Yorkshire Combined Authority (WYCA) is due to meet on 12th October and, in recognition of the critical funding pressures facing the five West Yorkshire local authorities, will be proposing a refund of transport levy reserves. If WYCA members approve this proposal, arrangements will be made to refund £17.7m to Leeds which, as one-off funding, would be added to the Strategic Contingency Reserve. (For further information, please see the WYCA report, 'Budget and Funding' available online here: [Item 9 Budget and Funding.pdf \(modern.gov.co.uk\)](#).)
8. With regard to the council's Housing Revenue Account (HRA), an overspend of £3.0m (1.09% of the approved gross HRA expenditure budget) is forecast. Further work is required to balance this position.

Recommendations

Executive Board is asked to:

- a) Note that at Month 5 (August) the authority's General Fund revenue budget is forecasting an overspend of £29.6m for 2023/24 (5.2% of the approved net revenue budget) within a challenging national context, and that a range of actions are being undertaken to achieve a balanced budget position.
- b) Note that at Month 5 (August) the authority's Housing Revenue Account is forecasting an overspend of £3.0m for 2023/24 (1.09% of the approved gross expenditure budget).
- c) Note that known inflationary increases, including demand and demographic pressures in Social Care and known impacts of the rising cost of living, including the employer's 2023/24 NJC pay offer of £1,925 and the JNC pay settlement of 3.5%, have been incorporated into this reported financial position. These pressures will continue to be reviewed during the year and reported to future Executive Board meetings as more information becomes available. Proposals would need to be identified to absorb any additional pressures.
- d) Note that where an overspend is projected, directorates, including the Housing Revenue Account, are required to present action plans to mitigate their reported pressures and those of the council's wider financial challenge where possible, in line with the [Revenue Principles](#) agreed by Executive Board in 2019 (details at Appendix 11 of the linked document).
- e) Note that if WYCA members approve a refund of transport levy reserves to the five West Yorkshire local authorities at their meeting on 12th October, this one-off injection will be used in Leeds to add to the Strategic Contingency Reserve.

What is this report about?

- 1 This report updates the Board on financial performance against the council's 2023/24 General Fund revenue and Housing Revenue Account budgets for the first five months of the financial year. 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 as at the end of month 5 (August 2023).
- 2 Executive Board will recall that the net revenue budget for 2023/24 was set at £573.4m. The Medium-Term Financial Strategy (refreshed for the period 2024/25 to 2028/29 and considered at last month's Executive Board meeting) assumes a balanced budget position for 2023/24 after the application of Government funding, the delivery of savings and the utilisation of earmarked reserves. Following the closure of the 2022/23 accounts, the Council's general fund reserve stood at £33.2m. The 2023/24 budget assumes a £3m contribution to this reserve as part of measures taken to ensure financial robustness and sustainability in the future.

- 3 At Month 5 directorates are reporting an overspend of £29.6m (5.2% of the approved 2023/24 net budget), an improvement from the Month 4 position (£33.9m, 5.9% of the net budget). The HRA is forecasting an overspend of £3.0m for 2023/24. As noted in the summary at the start of this report, this reflects a national picture whereby local government finances are in a critical state.
- 4 Directorate positions are summarised in Table 1:

Table 1: Summary position at end Month 5 (August), financial year 2023/24

Directorate	Director	(Under) / Over spend for the current period				Previous Reported Position
		Staffing	Total Expenditure	Income	Total (under) /overspend	
		£000	£000	£000	£000	£000
Adults & Health	Caroline Baria	(492)	19,957	(19,956)	0	0
Children and Families	Julie Longworth	932	29,032	(1,183)	27,848	25,195
City Development	Martin Farrington	(382)	(2,928)	2,246	(682)	(384)
Communities, Housing & Environment	James Rogers	2,171	11,546	(7,926)	3,620	3,791
Strategy & Resources	Mariana Pexton	7,901	1,713	2,333	4,046	5,215
Strategic	Victoria Bradshaw	(58)	(2,031)	(3,155)	(5,186)	104
Total Current Month		10,072	57,289	(27,641)	29,646	33,921
Previous reported (under)/over spend		7,473	50,168	(16,245)	33,921	

- 5 This position reflects the forecast 2023/24 pay increase and the demand and demographic pressures being experienced in social care. It also reflects the latest projections with regard to known inflationary pressures in respect of the costs of electricity, gas, fuel and the impact of the cost-of-living pressures on our residents or businesses which has significantly affected the cost of goods and services the council procures, demand for support and welfare services the council provides, and the activity levels that support a wide range of income streams. These will continue to be monitored throughout the year, as will any further increases in interest rates and their impact on the council's financial position.
- 6 Four key messages have been reiterated to staff in 2023/24 to remind everyone of the part we all have to play in supporting the financial position:
1. **Stay within budget** – reduce discretionary spend and minimise recruitment, including agency and overtime.
 2. **Absorb in-year pressures** – directorates required to absorb all in-year pressures.
 3. **Highlight issues early** – use the budget monitoring process to raise issues with Financial Management as soon as possible.
 4. **Robust monitoring is essential** – includes detailed discussion at relevant monitoring meetings.
- 7 In addition, given the significant forecast revenue overspend position reported here, the council's Corporate Leadership Team (comprising the Chief Executive and five directors) agreed to continue the freeze on recruitment, agency and overtime spend introduced in 2022/23 and further strengthen the controls through a post-by-post review to identify which posts meet agreed exceptions and can be excluded from the freeze. Unless an identified vacancy is for an excluded post, services are required to identify how they will cover the costs of the post.
- 8 It has also been agreed to continue the non-essential spend freeze introduced in 2022/23. The directorate positions reported reflect the impact of an initial review of areas of non-essential spend and further work is expected in this area. Following Executive Board's approval in September through the previous Financial Health report, relevant non-essential spend budgets totalling £1.85m have been moved out of respective Chief Officer budgets to specific strategic cost centres within each directorate to

prevent further spend where it has been identified that this reduction in spend is not detrimental to the delivery of services.

- 9 Cross-directorate work continues to support and challenge the highest cost/spend areas, such as Children Looked After, Transport and LBS and all services are continuing to explore opportunities to maximise income. Asset reviews are underway to ensure the council has the right numbers and mix of assets and directorates continue to consider where future year savings options identified as part of the Financial Challenge to meet the MTFs funding gap could be brought forward to generate savings during 2023/24. Updates on further in-year savings to contribute towards reducing the current projected overspend will be incorporated into future Financial Health reports. These will include income generation, additional non-essential spend savings and savings resulting from reviews of key areas of expenditure which will both reduce activity levels and rationalise service provision.
- 10 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 deemed to be at risk, for example the implementation of budget action plans and those budgets which are subject to fluctuating demand and key income budgets. This is reinforced through specific project management-based support and reporting around the achievement of key budget actions plans. It is due to the robustness of this monitoring that the projected overspend was identified so early in the financial year, enabling action to be taken.

What impact will this proposal have?

- 11 The budget proposals contained in the 2023/24 Budget have, where appropriate, been the subject of the Council's Equality Impact Assessment process and mitigating measures put in place or planned where appropriate. As such, an Equality Impact Assessment was provided at Appendix 6 to the [2023-24 Revenue Budget and Council Tax Report](#).

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 12 The Best City Ambition is the strategic plan which sets out the ambitions, outcomes and priorities for the City of Leeds and for the local authority. The Three Pillars of health and wellbeing, inclusive growth and achieving zero carbon underpin this vision and these can only be delivered through a sound understanding of the organisation's longer-term financial sustainability which enables decisions to be made that balance the resource implications of the council's policies against financial constraints.
- 13 This is the primary purpose of the Medium-Term Financial Strategy which provides the framework for the determination of the council's annual revenue budget. This report needs to be seen in the context of the requirement for the authority to be financially sustainable and deliver a balanced revenue budget position in 2023/24 so that resources can continue to be targeted at the council's priorities.

What consultation and engagement has taken place?

Wards affected:

Have ward members been consulted?

Yes

No

- 14 This is a factual report and is not subject to consultation. Public consultation on the Council's revenue budget proposals was carried out between December 2022 and January 2023 and is detailed in the [2023-24 Revenue Budget and Council Tax Report](#) presented to this Board in February 2023.

What are the resource implications?

- 15 This is a financial report and as such resource implications are detailed in both in the report and the accompanying appendices.

What are the key risks and how are they being managed?

- 16 The reported budget position is considered in the context of risk to both the in-year financial position and the potential impact on the Council's Medium-Term Financial Strategy. These risks are included on the Council's corporate risk register.
- 17 Budget management and monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget judged to be at risk such as the implementation of budget action plans, those budgets which are subject to fluctuating demand and key income budgets. To reinforce this approach, specific project management-based support and reporting around the achievement of key budget actions plans is in place for 2023/24.

What are the legal implications?

- 18 The council has a statutory duty to ensure that it maintains a balanced budget and to take any remedial action as required in year.
- 19 Section 28 of the Local Government Act 2003 provides that the council has a statutory duty to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the authority must take such remedial action as it considers necessary to deal with any projected overspends. This could include action to reduce spending, income generation or other measures to bring budget pressures under control for the rest of the year. The council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.
- 20 In addition, the council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The authority's Chief Finance Officer has established financial procedures to ensure the council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for Executive Board to receive information about the revenue and capital budgets as set out in this report.
- 21 The monitoring of financial information is also a significant contributor to meeting the council's Best Value legal duty and, therefore, this report also demonstrates compliance with that legal duty.
- 22 Under Section 1 of the Local Government Act 2003 ("LGA") ("Power to borrow"), a local authority may borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs".

Options, timescales and measuring success

What other options were considered?

- 23 Not applicable

How will success be measured?

- 24 Not applicable

What is the timetable and who will be responsible for implementation?

- 25 Work is ongoing to address the financial challenges outlined in this report and to identify savings to reduce the level of projected overspend. Further updates will be provided in future Financial Health Monitoring reports to this Board.
- 26 The responsibility for identification and actioning of the necessary measures to ensure the delivery of a balanced budget are the responsibility of the Chief Officer - Financial Services, working in conjunction with departmental directors. A balanced budget must be delivered at Financial Outturn 2023/24, with the outturn position due to be reported to the June 2024 meeting of this Board.

Appendices

27 The following appendices are attached to this report:

- **Appendix A – Financial Health Monitoring 2023/24 – Month 5:** background information, detailed narrative regarding the projected financial positions for directorates, Dedicated Schools Grant (DSG) and the HRA, update on Council Tax and Business Rates including collection performance
- **Appendix A1** – Individual financial dashboards for directorates, DSG and the HRA
- **Appendix A2** – Directorate Budget Action Plans

Background papers

28 None