



Agenda item:

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**Report of the Director of Resources**

**Executive Board**

**Date: 13<sup>th</sup> February 2009**

**Subject: Financial Health Monitoring 2008/09 – Third Quarter 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 nine months of the financial year in respect of the revenue budget, both General Fund and the Housing Revenue Account.
2. Overall, it would not seem unreasonable to project a balanced position on the General Fund revenue budget, although individual directorates must ensure that their action plans are deliverable. In terms of the HRA, a surplus of £2m is projected.
3. Members are asked to note the projected financial position of the authority after nine months of the financial year and the proposed actions to mitigate against budget pressures. Members are also requested to approve the utilisation of £0.8m for the Affordable Housing scheme and £0.65m for the purchase of 10 properties within the EASEL regeneration area.

## 1. PURPOSE OF REPORT

- 1.1 This report sets out for the Board the Council's financial health position for 2008/09 after nine 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 the report 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 were 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 nine months of the financial year, the projected outturn is £739k as detailed in the following table:-

<b>GENERAL FUND</b>	<b>Total Staffing</b>	<b>Other Costs</b>	<b>TOTAL PROJECTED VARIANCE</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Total Adult Social Care</b>	<b>(1,782)</b>	<b>2,858</b>	<b>1,076</b>
<b>Total Children's Services</b>	<b>(606)</b>	<b>1,148</b>	<b>542</b>
<b>Total City Development</b>	<b>(974)</b>	<b>2,959</b>	<b>1,985</b>
<b>Total Environment and Neighbourhoods</b>	<b>(40)</b>	<b>(588)</b>	<b>(628)</b>
<b>Resources</b>	<b>(1,161)</b>	<b>1,065</b>	<b>(96)</b>
<b>Corporate Governance</b>	<b>272</b>	<b>(156)</b>	<b>116</b>
<b>Public Private Partnership Unit</b>	<b>(598)</b>	<b>575</b>	<b>(23)</b>
<b>Policy, Performance and Improvement</b>	<b>203</b>	<b>164</b>	<b>367</b>
<b>Total Corporate &amp; Central Functions</b>	<b>(1,284)</b>	<b>1,648</b>	<b>364</b>
<b>TOTAL DIRECTORATES</b>	<b>(4,686)</b>	<b>8,025</b>	<b>3,339</b>
<b>Debt</b>		<b>(600)</b>	<b>(600)</b>
<b>LABGI</b>		<b>(2,000)</b>	<b>(2,000)</b>
<b>NET POSITION</b>	<b>(4,686)</b>	<b>5,425</b>	<b>739</b>

- 3.2 Debt savings of £4.5m have been achieved through proactive treasury management and interest on revenue balances, although £3.9m has already been used to fund energy costs, LATS and the impact of the pay award from 2% to 2.45% as agreed by the Board at quarter two. In addition, it is likely that the Council will receive a share of the £100m contingency for LABGI which the government retained, pending the outcome of legal challenges. It is anticipated that this will be around £2m. During the year costs of £1.6m have been identified which are more appropriately charged to the

Housing Revenue Account than General Fund in respect of costs associated with anti social behaviour and noise nuisance on Council estates.

3.3 The overall variation at the end of quarter three is therefore projected at £0.7m. Based on previous years' projection patterns, it would be reasonable at this stage to assume that an overall balanced position will be achieved by the year end. 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 £3.0m 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.

As reported at the half year, 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 £0.6m.

The value of Housing Benefit overpayments identified has continued to reduce, reflecting trends experienced by a number of other local authorities, meaning that budgeted income will not be met by an estimated £350k.

At the half year, within Adults Social Care, an additional £1.5m was transferred to the Supporting People (SP) budget, met from savings on Community care packages in respect of fully funded NHS continuing care. A reassessment of the available funding still leaves a shortfall of £1m reflecting the extent to which targeted SP income has been under achieved.

#### 3.5.2 Demand Variations

Outside Placement costs continue to be a major pressure on the Children's Services budget and are now projected to be £1.4m overspent, which together with support to unaccompanied asylum seeking children of £0.2m have been partly mitigated by savings of £0.4m on the in-house fostering budget. As explained at the half year the cost of Public Law Fees is projected to be £0.5m higher than the amount allocated from central government. The Council was not successful in a judicial review challenging this additional burden.

Within the Adult Social Care Directorate there has been an increase in demand for domiciliary care, direct payments and the net impact on the Community Care packages budget is an overspend of £1.4m, although this is partly offset by staffing savings described in paragraph 3.5.3 below.

The increased activity in the Elections Service is now projected to be £0.3m.

### 3.5.3 Staffing

Overall staffing savings are £1.4m at the third quarter, projected to be £4.7m at the year end. This compares to a projected underspend of £1.9m from the half year, an increased saving of £3.3m. This change since the half year is primarily within the Adult Social Care budget at £1.8m, partly reflecting the downward trend in Community Support Services as work delivered by the directly provided and independent sector services are rebalanced.

Continued savings within the Resources Directorate have increased by £600k to £1.2m reflecting the non filling of vacant posts pending the implementation of new structures and the need to achieve further savings in future years within the support service functions.

City Development are projecting a £1m staff saving, double the prediction at the half year, helping to offset the income losses experienced by the service.

Children's Services are projecting a £600k staff saving which reflects an underspend on staffing across the Early Years Service.

### 3.5.4 Early Leavers Initiative

To support plans to ensure that the 2008/09 staffing budget was achieved the Council's Compensation Policy has been used on a targeted basis to reduce overall staffing costs. The initiative has been focussed on targeted services and employee groups where there is an organisational priority for change and savings backed up by a business case. Exercises have been undertaken during the year in specific services with timing linked to service need and budget plans.

It is projected that by the end of the current financial year 172 staff will have left the Council through this initiative.

The scheme has been financed from a reserve created to support the future cost of the Council's Street Lighting PFI scheme which used a sinking fund to equalise payments with PFI grant over the life of the scheme. The Street Lighting Scheme costs will now be met in the year they are incurred, although this will create a budget pressure in future years which will have to be resourced.

## 4.0 **SCHOOLS**

4.1 School reserves stood at £12.4m as at 31st March 2008. This comprised overall surpluses of £10.4m in primary, £1.7m in secondary and £0.3m in special schools. The average Primary School balance is 5.6% of the school budget and the average Secondary school balance is 0.9%. The Schools Forum scrutinises all surplus balances above 5% in secondary and 8% in primary and special. If a school is unable to provide a satisfactory explanation for the balance the excess surplus is clawed back for redistribution to other schools.

4.2 Within these overall surpluses there are some individual schools with deficit balances. Schools which had deficits at the close of 2007/08 and were planning to set a deficit budget for 2008/09 were required to submit an action plan detailing how they intend to achieve a balanced position within three years. Most of these have now been submitted to Education Leeds and have been evaluated and reviewed for their viability in light of pupil numbers and staffing complements for the new academic year.

and are now to be submitted to the Director of Resources for approval in accordance with the agreed arrangements.

## **5.0 HOUSING REVENUE ACCOUNT**

5.1 The original budget assumed that general HRA reserves would be £3.71m at 1<sup>st</sup> April 2008. The latest estimated position projects a surplus at the year end of £2m; the main reasons for the movement in 2008/09 are:

- A reduction in supplies and services reflects the estimated reduction in Swarcliffe unitary charge payments (£0.75m), RTB valuation costs (£0.1m) and Claims and Compliance costs (£0.2m) etc. offset by additional resources (0.5m) required for the Little London and Beeston & Holbeck PFI schemes.
- Based upon write-offs, arrears levels and disrepair caseloads, indications are for the bad debts and disrepair provisions to be underspent by £0.3m
- Property and void numbers – Lower actual void levels should generate additional rental income of £1.3m. The fall in Right to Buy (RTB) numbers during 2007/08 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.
- 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.
- It is proposed to utilise £0.8m of this surplus to fund the decanting and demolition costs on HRA land to support the Affordable Housing programme, and £0.65m towards the purchase of 10 HRA properties within the EASEL regeneration area; details of these two schemes are contained in separate reports to Executive Board. Executive Board are requested to release these resources.

## **6.0 OTHER FINANCIAL HEALTH INDICATORS<sup>1</sup>**

6.1 The level of Council Tax collected at the end of December 2008 is 83.54% of the debit for the year of £249.3m. This position is 0.14% behind 07/08. This reflects a significantly increased value of debt which is now being paid over 12 months rather than 10 months. 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 nine months is 87.53% of the current net debit of £321.7m, which is 0.59% behind 07/08. The number of insolvency cases has doubled compared to last year and this results in less Business Rates being collected, a trend which is expected to continue. However the introduction of the option of 12 instalments to March 2009 has increased the amounts due in February and March which may offset some of the reduction in collection later in the financial year. Again, performance against the target of 98.6% is being closely monitored.

6.3 In terms of Sundry income the collection rate of invoices issued for more than 30 days at the end of December is 93.7%. This is ahead of this time last year and on target to meet year end target of 97%.

## 7. **RECOMMENDATION**

7.1 Members of the Executive Board are asked to

- Note the projected financial position of the authority after nine months of the financial year.
- Release £1.45m earmarked reserves for the Affordable Housing scheme and the purchase of 10 HRA properties within the EASEL regeneration area.

### BACKGROUND

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<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

Other working papers available from the originator

