



Report of the Director of Corporate Services

Executive Board

Date: 20th September 2006

Subject: Financial Health Monitoring 2006/07 – Month 4 Report

Electoral wards affected:

Specific implications for:

Equality and Diversity

Community and Cohesion

Narrowing the gap

Eligible for call In

Not eligible for call in
(details contained in the report)

Executive Summary

1. The purpose of this report is inform members of the financial health of the authority after four months of the new financial year, in respect of the revenue budget for general fund services and the housing revenue account.
2. The report identifies that a number of council services are continuing to face financial pressures in 2006/0, often reflecting pressures which impacted on the Council's 2005/06 outturn.
3. A number of additional funding sources have been identified to mitigate against some of the pressures, and this enables additional allocations of £3.2m to be made to those areas of immediate concern.
4. It is crucial that all other budget pressures are addressed by departments who are required to continue to develop and implement action plans to manage identified pressures within available resources.
5. Members are asked to note the contents of this report and agree the proposals. It should be noted that as the proposals include virements in excess of £1m, these will require the approval of full Council.

1. PURPOSE OF REPORT

- 1.1 This report sets out for the Board the Council's financial health position for 2006/07 after four 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 ensure a balanced budget by the year end. The report also highlights the position regarding other key financial indicators, including Council Tax collection and the payment of creditors.

2. BACKGROUND INFORMATION

- 2.1 Members will recall that the net budget for the general fund was set at £486.5m, which provided for a contribution of £0.3m to reserves. As a result, the level of general fund reserves at 31st March 2007 were estimated to be £12.3m.
- 2.2. As reported in the 2005/06 outturn report to Board in June 2006, spending for 2005/06 was £1.4m in excess of approved estimates. The effect of this was that reserves at 31st March 2006 stood at £10.6m, which was lower than the £12.0m forecast assumed in the Council's approved reserves policy. However, as reported, significant capital finance savings in 2006/07 had been identified, and it was agreed by Executive Board that reserves should immediately be replenished, with the balance allocated to the Council's contingency to provide some level of resource to deal with any recurring spending pressures.
- 2.3 The budget now takes account of the decision taken at Council to vire £400k from contingency to the School Clothing Vouchers budget.
- 2.4 Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget after four months and comments on the key issues impacting on the overall achievement of the budget for the current year. However, it should be recognised that the forecasts are based on the position at a relatively early stage of the financial year.

3. MAIN ISSUES

3.1 Social Services

- 3.1.1 Budget pressures experienced in 2005/06 have continued to some degree in the current financial year and the 2006/07 budget includes challenging targets for service improvement and realignment with associated financial savings. Although much has been achieved in the current year, there has been some slippage in delivering the required actions and demand/demographic pressures continue to impact on the service.

- 3.1.2 The most significant areas of forecast variation are set out below:

Roseville Enterprises

The reduced volumes of uPVC windows and doors work undertaken by Roseville in 2005/06 have continued in 2006/07. Work is ongoing to secure firm commitments for window and door work in the current year and develop contingency actions for the extent to which this will not deliver financial balance. Based on the information currently available a year-end deficit of £1.3m is forecast at this time. A Chief Officer from Corporate Services has been seconded on a temporary basis to Roseville to provide additional management support. With regard to the wider perspective, an

inter-departmental working group is undertaking a fundamental review of Roseville Enterprises within the context of the Council's Workstep programme to support its disabled employees and its commitment to equality and social inclusion.

Joint Commissioning Service for People with Learning Disabilities

The learning disability pooled budget is continuing to face growing demographic pressures, with an increasing number of service users with very complex needs requiring expensive packages of care. Action is being taken to reconfigure services and deliver more cost effective care, but this will take time. For 2006/07 the additional cost of the pooled budget projected to fall to Social Services amounts to £0.3m, taking account of in-year cost reduction plans. There is also a close association with the steps being taken to manage the supporting people funding to this service area.

Supporting People

Early indications are that there may be a potential pressure of £0.8m relating to Supporting People funding in 06/07 should steps not be taken to generate efficiencies. However, measures are being put in place to address these concerns and, at this stage, it is anticipated that the potential pressure can be managed.

Community Care Packages

The projected cost of community care packages in 2006/07 is £0.6m less than budgeted, reflecting variations in the number of service users in residential and nursing care and the impact of revised contracts from April 2006 for placements and domiciliary care.

Transport

Expenditure on transport for service users is forecast to exceed budgeted provision by £0.5m, mainly relating to external hire of vehicles. This reflects some delays in delivering budgeted savings and demand pressures within frontline services.

Children's Placements

The budgeted impact of the planned reductions in Looked After Children have not been fully achieved and demand pressures continue in relation to expensive outside placements for those children with the most complex needs. Expenditure at the year-end is currently forecast to be £0.9m higher than the Latest Estimate.

Staffing

The staffing budget has experienced pressure resulting from the very tight control of spend during 2005/06 to help to offset other budget pressures within the Department. Some of the service improvement plans also require staffing savings to be delivered and there has been some slippage. Staffing costs are currently projected to exceed budgeted provision by £1.2m at the year-end.

Meals Service

The meals service is the subject of a major service reconfiguration programme and demand for meals is also affected by the ongoing review of service users in relation to the line of eligibility for social care services. There have been some delays in implementing planned changes within the service and the year-end expenditure forecast is £0.7m higher than the Latest Estimate.

Income

Income across the Department is forecast to be £1.0m lower than the Latest Estimate. This mainly relates to client contributions and income from Housing Benefit, Supporting People and funded nursing care.

3.2 City Services

- 3.2.1 The department is currently forecasting a deficit in the Property Maintenance agency of £0.6m, although projected surpluses generated on other trading services partially offset this to give an overall trading deficit of £0.5m. The department is currently developing a strategy for the service to address this underlying problem.
- 3.2.2 Other pressures include a projected shortfall of Decriminalised Parking income of £0.3m as a result of payment rates being lower than anticipated, and increased energy costs of £0.4m, which reflects the street lighting electricity contract being higher than budgeted. Disposal costs are projected to be £0.4m over budget due to an increased volume of tonnages, although partially offsetting these pressures are staffing savings across the department of £0.6m.
- 3.2.3 Overall, the department are currently forecasting an overspend of £1.0m, but are continuing to work up action plans to address these pressures, which are expected to deliver significant savings towards the potential overspend.

3.3 Learning and Leisure

- 3.3.1 There are a number of identified pressures which in total amount to £2.9m. As Members will be aware, the most significant of these is the loss of the New Deal contract within Jobs and Skills, leading to a projected net cost to the service of £1.8m in the current year.
- 3.3.2. Additional costs incurred in respect of Sport PFI and Sport Trust development work are projected to be £0.3m, and the ongoing pressure on the Community Centres budget of £0.4m reflects low income achievement and caretaking costs. Other minor budget variations have been managed through the department's action plan.

3.4 Neighbourhoods and Housing

- 3.4.1 The department has identified a number of pressures, including a forecasted loss of adaptations fee income of £0.5m which reflects Council house adaptations now undertaken by the ALMOs, but after identifying a number of savings actions, the department are currently projecting that all pressures can be managed within existing resources.

3.5 Schools PFI/BSF

- 3.5.1 The 2005/06 outturn report identified that the Council's strategy for funding the development costs of schools' PFI/BSF schemes by borrowing short term from the PFI reserve and schools reserves was no longer sustainable as schools reserves had fallen significantly in 2005/06. Officers are currently working to formulate a viable alternative strategy to fund these development costs.

3.6 Children's Services Directorate

- 3.6.1 Work is ongoing to establish the Council's new Children's Service Directorate. Additional provision was included in the 2006/07 budget but it has now been identified that additional provision of £280k is required to ensure that the Council is able to properly respond to the new agenda.

3.7 Houses in multiple Occupancy (HMO)

- 3.7.1 A potential shortfall in licence fee income from Houses in Multiple Occupancy (HMO) is projected of up to £2.9m due to a lower number of applications for licences than forecast, although further publicity work is being taken to raise the profile of the licences and to ensure the maximum number of applications are generated. These licences relate to a five year period and cover the costs of the inspection and enforcement team. Staffing requirements over the five year period will be reviewed and amended to reflect the income derived from the actual numbers of licences issued.
- 3.7.2 It appears that there are considerable numbers of HMOs in parts of the City where few applications have been made, and further action is currently being undertaken to target these premises.

4 **PROPOSALS**

- 4.1 It can be seen from the above that there are a number of potentially significant pressures facing the Council in 2006/07, although the forecasts are based on a position at a relatively early stage of the financial year. It is proposed that funding is made available from the central contingency fund as detailed below.
- 4.2 The Council's 2006/07 budgeted central contingency stands at £3.2m. However, members will be aware that a significant element is earmarked to account for specific departmental pressures identified during the budget cycle, but not provided for in departmental estimates. The effect of this is that only £600k of the budgeted contingency can be properly regarded as free.
- 4.3 However, added to this can be capital financing savings over and above the level required to replenish reserves as detailed in paragraph 2.2 above. These are now forecast to be £4.0m, of which £1.4m needs to be used to replenish reserves and £400k has been vired by Council to the School Clothing Vouchers budget. In addition, the Council has been notified by the Department for Communities and Local Government that following a data correction exercise additional income of £1.2m will be received under the LABGI scheme.
- 4.4 Taking account of all these factors, it can be reasonably assumed that £4.0m could be made available through the contingency to support departmental pressures.
- 4.5 A number of the identified pressures are subject to review and are actively being worked on by departments. However, in those areas where there is a high degree of certainty over the projections, it is proposed that some initial funding is allocated from contingency as follows:
- £1m to Roseville – the department are to be requested to contain the 2006/07 deficit to this level.
 - £280k to Children's Services – for the ongoing development of the Children's agenda.
 - £1.5m to Jobs and Skills – to address the shortfall of grant income on this service, pending a structure review.

- 4.6 It is proposed that the remaining balance on the central contingency after the releases detailed at paragraph 4.5, be retained and its use subject to review in the light of ongoing budget monitoring during the rest of the year. It should be noted that the extent to which the above proposals are not effective in containing spending within approved estimates, will impact on the Council's reserves, which are estimated to stand at £12.3m at 31st March 2007.

5 REVENUE BUDGET MONITORING POSITION - HOUSING REVENUE ACCOUNT (HRA)

- 5.1 After four months of the new financial year, income is projected to exceed the budget by £4.9m, reflecting additional property numbers compared to the budget and a significantly improved voids position. This is partly offset by increased staffing costs, negative subsidy and additional management fees payable to the ALMOS by way of incentive payments, especially in relation to voids. An in year surplus of £1.1m is currently forecast which will be added to working balances.
- 5.2 This projection assumes that there will be sufficient right to buy, demolitions and other disposals to allow the Authority to hit the trigger of 3000 property movements over two years. Failure to hit this trigger results in a cost of £2.4m in 06/07 and in each subsequent year the trigger is not met. Reserves of £2m are held to alleviate the first year impact. This significant risk is being regularly reviewed.
- 5.3 The projection reflects the re-distribution to the ALMOs of savings generated through a reduction in disrepair claims in 2005/06, for which a specific provision of £1.9m was made at outturn, as reported to Members in the 2005/06 outturn report.
- 5.4 The working balance brought forward from 2005/06 was £3.4m, and after allowing for the projected surplus, it is anticipated that working balances carried forward into 2007/08 will be £4.5m.

6. COLLECTION OF LOCAL TAXATION

- 6.1 The level of Council Tax collected at the end of July 2006 is 37.7% of the debit for the year of £213m. This is in line with the same period last year and the performance target of 96.60% is expected to be achieved.
- 6.2 The collection of non-domestic rates for the first four months is 42.9% of the current net debit of £276.7m, which is 1.6% ahead of the same period last year. Again, the performance target of 98.6% is expected to be achieved at the year end.

7. PROMPT PAYMENT OF INVOICES

- 7.1 A local target of 92% for paying all undisputed invoices within 30 days of receipt of agreed terms was set for the year. For the period 1st April to 31st July the actual performance was 90.9%, compared with 91.6% for the equivalent period last year. It is anticipated that performance will improve through the continued development of electronic ordering and invoicing of goods, and expanding the use of purchasing cards, will over time reduce the number of paper invoices passing through the Council and hence speed up the process. This is in addition to other efficiency proposals which are being worked up as part of the ongoing Support Services review.

8. RECOMMENDATION

- 8.1 Members of the Executive Board are asked to

- Note the projected financial position of the Authority.
- Recommend to the Council the appropriate budget adjustments as described within Section 4.
- Request that departments continue to develop and implement action plans.