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## Report of the Director of Resources

### Executive Board

Date: 26<sup>th</sup> August 2009

Subject: Financial Health Monitoring 2009/10 – First Quarter Report

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#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

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 three months of the financial year in respect of the revenue budget and the housing revenue account.
2. The report identifies a number of pressures, many of which impacted on the 2008/09 outturn particularly affecting income and demand led budgets. Directorates have already developed and implemented action plans but nevertheless an overall overspend of £10.9m is projected at this stage. Detailed directorate reports are included at Appendix 1.
3. Members are asked to note the projected financial position of the authority after three months of the financial year 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 2009/10 after three months of the financial year. The report covers revenue expenditure and income projected to 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<sup>1</sup> for the general fund was set at £556.8m, which was not supported by the use of any general fund reserves. As a result, the level of general fund reserves at 31<sup>st</sup> March 2010 were estimated to be £12.0m.
- 2.2. As reported to Corporate Governance and Audit Committee<sup>2</sup> in the 2008/09 Statement of Accounts report on 30<sup>th</sup> June 2009, the net contribution to general fund reserves was £4.6m in excess of the budget bringing the level of general reserves up to £16.6m. This is £200k less than the level reported to Executive Board in the 2008/09 outturn report<sup>3</sup> due to a post balance sheet event in respect of an insurance claim.
- 2.3. However, the contribution to reserves included a claim for overpaid VAT within Sport which could give a potential refund of £6.3m. In view of the unknown final outcome of the VAT claim and the present uncertain economic circumstances, it is appropriate that the Council maintains a higher level of reserves than the minimum required.
- 2.4 Budget Monitoring is a continuous process throughout the year, and this report reviews the position of the budget after three months and comments on the key issues impacting on the overall achievement of the budget for the current year.

## 3. MAIN ISSUES

- 3.1 After three months of the financial year an overspend of £10.9m is projected as detailed in the following table.

General fund	Total Staffing £000	Other Costs £000	Total Projected Variance £000
Adult Social Care	140	160	300
Children's Services	(204)	2,704	2,500
City Development	700	3,500	4,200
Environment and Neighbourhoods	271	989	1,260
Corporate & Central Functions	432	(277)	155
<b>Total Directorates</b>	<b>1,339</b>	<b>7,076</b>	<b>8,415</b>
Section 278 Income		1,200	1,200
Early Leaver Initiative		1,300	1,300
<b>Net Position</b>	<b>1,339</b>	<b>9,576</b>	<b>10,915</b>

## 3.2 The main variations can be analysed as follows:

### 3.2.1 Income Variations

The economic downturn is continuing to have a significant effect on income levels in 2009/10. Within the City Development directorate a shortfall of over £2.2m is projected from a number of external income sources, including planning and building fees, sport income and commercial rental income. Within Environment and Neighbourhoods, a shortfall in car parking income of £800k is forecast. In addition, the 2009/10 budget includes income from Section 278 schemes of £5.2m, and based on the 2008/09 outturn position a £1.2m shortfall is projected, again reflecting a slowdown in development activity.

The level of nursery fee income within Children's Services is projected to be £800k lower than the budget.

Additional income has been generated within Adults Social Care with a one-off grant contribution for neighbourhood networks of £400k towards the city wide scheme.

### 3.2.2 Demand Variations

Externally provided placements, both residential and with independent fostering agencies, continue to be a major pressure on the Children's Services budget and are now projected to be £2.1m overspent.

### 3.2.3 Staffing

The overall staffing budget is projected to overspend by £1.34m. This figure would have been some £2.2m higher were it not for a projected reduction in the level of the NJC pay award for which the latest offer is an increase of 1.25% for the lower grades and 1% for higher grades. The 2009/10 budget provided for a 2% increase.

During 2008/09, the Council's Early Leaver Initiative (ELI) was used to help reduce overall staffing costs. The scheme was financed from an earmarked reserve and facilitated 132 people leaving the authority where there was an organisational priority for change and future savings backed up by business cases. The 2009/10 budget built in assumptions around reducing staffing levels and these reductions are being progressed in a number of services where there is a robust business case demonstrating a clear rationale to achieve future savings. It is projected that additional funds of £1.3m will be required to cover the in year costs of the initiative. This is in addition to the £1.34m projected overspend referred to above.

3.2.4 Further details of directorate variations and proposed actions to help achieve a balanced budget are attached as Appendix 1. It is important that budget pressures are addressed by directorates who are required to continue to develop and implement action plans to manage their pressures within available resources. The extent to which action plans are not effective in containing spending within approved estimates will impact on the Council's reserves which will clearly have implications on the medium term plan assumptions going forward.

## 4. **HOUSING REVENUE ACCOUNT**

4.1 At the end of the first quarter the HRA is projecting an underspend of £827k after taking into account an additional contribution to the Swarcliffe PFI sinking fund of

£284k and it is proposed that revenue contributions to capital (RCCOs) are made to fund decency works on the Woodbridge estate (£500k) and a projected shortfall in funding for the HICT orchard project (£200k).

- 4.2 Average void levels for the first quarter are 1.62%, which, if maintained should generate additional rental income of £1.3m. Of this increased income £489k will be paid over to the ALMOs as additional void incentive payments. The fall in RTB numbers during 2008/09, which resulted in higher opening property numbers than budgeted and the continuing decline in RTB sales projects further contributions to rental income of £700k.

## **5. SCHOOLS**

- 5.1 School reserves stood at £13.8m as at 31st March 2009. This comprised overall surpluses of £11.4m in primary, £2m in secondary and £0.4m in special schools. The average Primary School balance is 6% of the school budget and the average Secondary school balance is 1%. Excess individual school surpluses above specified limits are subject to clawback and redistribution to the other schools. It should be noted that within these overall surpluses there are some individual schools with deficit balances.
- 5.2 In line with the Leeds Scheme for Financial Schools, any school which had deficits at the close of 2008/09 and were planning to set a deficit budget for 2009/10 are required to submit an action plan showing in detail how they intend to achieve a balanced budget position within three years. The majority of these have been submitted to Education Leeds and are being evaluated for their viability with implementation monitored regularly. These action plans will be submitted to the Director of Resources by the end of September 2009 in accordance with the approved policy.

## **6. OTHER FINANCIAL PERFORMANCE<sup>1</sup>**

- 6.1 The level of Council Tax collected at the end of June 2009 is 28.33% of the debit for the year of £255.7m. This is marginally ahead of the same period last year. The target set by Executive Board for the year is 96.4% and performance against this is being closely monitored.
- 6.2 The collection of non-domestic rates for the first three months is 33.12% of the current net debit of £331.5m, which whilst being behind the same period last year is currently on target against a reduced yearly target of 97.5% agreed due to the impact of the recession.
- 6.3 In terms of Sundry income, the collection rate at the end of June is 84.7% of the amount due of £29.0m. The collection rate is behind the same period last year predominantly due to a small number of high value invoices recently raised which are currently outstanding. 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.
- 6.4 The prompt payment result for June including P Card transactions processed in June and Utility accounts processed in May is 90.11%. The year to date position for 2009/10 is 91.20% against a target of 92%. During June 43,963 invoices were processed of which 4,347 invoices were paid late.

## **7. RECOMMENDATION**

- 7.1 Members of the Executive Board are asked to note the projected financial position of the authority after three months of the new financial year and request that directorates continue to develop and implement action plans.
- 7.2 Members are also requested to approve the following budget adjustments :-
- 7.2.1 A revenue contribution to capital (RCCOs) to fund decency works on the Woodbridge estate (£500k) and a projected shortfall in funding for the HICT orchard project (£200k) within the Housing Revenue Account
- 7.2.2 A virement in the sum of £800k within City Development directorate from the Highways Direct Labour Organisation account, as detailed in the attached City Development report.
- 7.2.3 The reallocation of the Strategy and Policy budget within City Development as detailed in the attached City Development report.

### BACKGROUND

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<sup>1</sup> Revenue Budget and Council Tax 2009/10 – report to Executive Board 13<sup>th</sup> February 2009

<sup>2</sup> The Statement of Accounts 2008/09 – report to Corporate Governance and Audit Committee 30<sup>th</sup> June 2009

<sup>3</sup> Financial Performance – Outturn 2008/09 – report to Executive Board 17<sup>th</sup> June 2009

Other working papers available from the originator

**ADULT SOCIAL CARE DIRECTORATE: 2009/10 BUDGET – QUARTER 1 REPORT****1.0 Introduction**

This report sets out the financial position for the Adult Social Care directorate for Quarter 1.

**2.0 Overall Summary**

The Quarter 1 position for the Adult Social Care Directorate is a projected overspend of £0.3m. This is after assuming achievement of in-year action plans of £4.9m.

**3.0 Explanation of the Projected Overspend**

The main reasons for the projected overspend are:

- **Holt Park Wellbeing Centre - £0.5m**  
The initial bid for PFI credits for a Wellbeing Centre was rejected last year and because a response had not been received regarding the appeal lodged against that decision, no costs were included in the Adult Social Care budget proposals for 2009/10. However, in March of this year the appeal was upheld and the opportunity of securing over £30m of PFI credits to further the development of universal services as part of the 'Putting People First' agenda, together with the re-provision of the Holt Park Leisure Centre was seen as an important contribution to the delivery of ASCs objectives. The costs associated with the procurement of this facility and their allocation across the partners are yet to be finalised, and may be impacted by the final allocation of floorspace and additional contributions from other agencies; but for planning purposes Adult Social Care are currently agreeing to share the cost equally with the City Development directorate.
- **Community Care Packages - £0.1m**  
This pressure reflects an increase of Direct Payments and reduced PCT income offset by a reduction in Community Care placements.
- **Staffing - £0.1m**  
Mainly due to slippage in implementing planned savings.
- **Neighbourhood Networks – (£0.4m)**  
The directorate has successfully bid for and received a one off grant contribution towards the city-wide scheme.

**4.0 Proposed Actions and Risks**

The Directorate is continuing work to minimise any overspend and based on the current position the contingency plan will mitigate the projected pressure.

## CHILDREN'S SERVICES: 2009/10 BUDGET – QUARTER 1 REPORT

### 1.0 Introduction

This report sets out the financial position for Children's Services for quarter 1.

### 2.0 Overall Summary

The quarter 1 position for Children's Services is a projected overspend of £2.5m.

### 3.0 Explanation of the projected over/underspend

3.1 Within the overall Children's Services budget the individual service position is;

Line	Service	Forecast Variation Over/(under) £m
1.	Children & Young People's Social Care	2.60
2.	Early Years	(0.35)
3.	Integrated Youth Support Service (incl. Youth Offending Service)	0.40
4.	DCS Unit	-
5.	Education	(0.30)
6.	Central & Strategic budgets	0.15
	<b>Total</b>	<b>2.50</b>

### 3.2 Children & Young People's Social Care (CYPSC)

The main pressures on the budget relate to externally provided placements, both residential and those with independent fostering agencies. In fostering, the service improvement and transformation agenda, together with recognising the level of scrutiny from external regulatory bodies, has increased the volume of children & young people placed with fostering agencies. In addition, there is pressure on the externally-provided residential care budget which is also due to an increase in the number of placements. There is also additional pressure on the budget around slippage on some of the budgeted action plans, for example the corporate review of employee travel policies, procurement efficiencies and delivery of the potential efficiencies from reducing the level of sickness absence.

### 3.3 Early Years

The forecast underspend on the Early Years budgets is focussed mainly on the employee budgets across the Children's Centres. This is partially offset by reduced nursery fee income when compared to the budget.

### 3.4 Integrated Youth Support Service (incl. Youth Offending Service)

In the main, the pressure on the IYSS budget is around a forecast overspend across employee budgets, together with slippage on budgeted action plan savings (employee travel, procurement & maximising income) and non-reclaimable costs associated with

the development of the Youth Hub in South Leeds. The pressures on the employee budget includes the Leeds element of the exit costs for the Regional Budget Holder pilot which are funded in part by the use of the earmarked reserve.

### **3.5 Central & Strategic Budgets**

The budget strategy for 2009/10 included a challenging target around the delivery of efficiencies from the application of strategic commissioning, the development of integrated working at a locality level and by reviewing and rationalising back-office and support functions. Whilst significant progress has been made against these objectives, the first quarter projections recognise that there will be slippage on the delivery of the budgeted efficiencies.

### **4.0 Proposed Actions & Risks**

There are clear financial risks within the first quarter projections that will need careful monitoring and management over the coming months. These risks include the externally provided fostering & Residential budgets in CYPSC, the delivery of the budgeted action plan savings across Children's Services and close monitoring of the income levels in Early Years.

A number of plans and actions have been strengthened in order to reduce the projected overspend. These plans include:

- Continual risk-based review of all externally provided fostering and residential placements, recognising in-house capacity.
- Business Process Reviews in CYPSC as part of the service transformation agenda.
- Maximising the opportunities presented from external funding.
- Close scrutiny of the employee-related budgets including external recruitment, the use of agency staffing, overtime and employee travel costs.
- Strengthening the commissioning and contracting arrangements for externally provided fostering and residential care.
- Continue the move towards integration across the Children Leeds partnership and in particular the programme management review of support arrangements, infrastructure, commissioning and service provision at a locality level.



## CITY DEVELOPMENT DIRECTORATE: 2009/10 BUDGET – QUARTER 1 REPORT

### 1.0 Introduction

This report sets out the financial position for City Development Directorate for Quarter 1.

### 2.0 Overall Summary

The Quarter 1 position for City Development Directorate is a projected overspend of £4.2m. This is after assuming additional savings of £925k will be achieved in staffing and running costs through various actions agreed by City Development Directorate.

### 3.0 Explanation of the Projected Overspend

The main reasons for the projected overspend are the continued impact of the recession on the Directorate's external income base particularly planning and building fee income, delays in the achievement of some planned efficiencies, cost pressures on operational budgets in Sport and Parks and Countryside and an overspend on staffing. The projected overspend can be summarised as follows:

Planning and Building Fees shortfall	£1.0m
Net other income shortfalls	£1.2m
Staffing	£0.7m
Operational budgets	£1.3m
Total	£4.2m

#### Income

In 2008/09 there was a shortfall on key external income sources of £4.2m. This included shortfalls on planning and building fees, sport income, museums income and income in Asset Management.

The 2009/10 budget was adjusted to reflect expected trends at the time and external income budgets were reduced by over £3m. However, the actual income position continued to worsen towards the end of 2008/09 and in some cases income levels in 2009/10 are falling well below 2008/09 levels. The most significant problem facing the directorate continues to be planning and building fee income with a shortfall of £1m projected for 2009/10. This is also after the 2009/10 budgets were reduced by £925k. The current projection assumes that planning and building income levels are not going to improve significantly in 2009/10. Other income shortfalls include £0.2m on commercial property rental income, £0.3m income in Libraries, Arts and Heritage and £0.6m on sport.

Reduced workloads for Architectural Design Services means that there is a projected shortfall in income of £0.5m after allowing for reduced staffing costs. This issue came to light in the final quarter of 2008/09 and the service is actively working on a budget action plan to deal with this situation, this will include managing staffing downwards to an appropriate level.

## **Staffing**

To help fund income shortfalls, reduced workloads and meet other substantial cost pressures the budget strategy for City Development for 2009/10 included a staffing saving target of over £3m. An additional staff saving of £220k was also included for savings resulting from reduced sickness. Over 50 Early Leaver Initiative (ELI) cases were approved during 2008/09 and planned restructures are being progressed in a number of services which are experiencing reduced income and workloads. Overall the directorate has plans to achieve a significant element of the £3m target but service budgets also include an assumed vacancy factor saving. In many service areas staff turnover is currently very low resulting in services not meeting assumed vacancy factor assumptions in the budget and overall an overspend in staffing of £0.7m is projected. This also takes account of the fact that the latest pay offer for 2009/10 is less than the 2% pay award assumed in the 2009/10 budget.

Achieving the staffing savings target is a priority for the Directorate. The ELI is being promoted and recruitment will continue to be closely managed in the Directorate with only front line services having posts released when vacancies occur.

## **Operational Budgets**

There are pressures on operational budgets in both Sport and Parks and Countryside. These include operational materials, equipment, provisions, security, fuel and vehicle hire which emerged as pressures during late 2008/09. Budget Action Plans are being developed in services that are projecting an overspend and virements will be prepared once actions agreed, however, an overspend on these budgets is still likely. In addition, some planned savings included in the 2009/10 budget are likely to take longer to be realised.

The overall Directorate position is helped by savings and additional income that will be achieved in Highway Services and Economic Services. In Highways and Transportation savings are projected from reductions in contract rates for plant hire, savings in supplies and services and from additional capital fee income. The Service will be able to deliver the planned Individual Maintenance Scheme Programme for 2009/10 and generate the above savings. It is proposed to realign £800k from these savings to fund budget pressures in other service areas. It is proposed that a virement will be made from the Highways Direct Labour Organisation account, where the majority of savings are projected, to Planning and Sustainability and Libraries, Arts and Heritage for staffing and to Sport and Parks and Countryside for operational running costs.

### **4.0 Revised management arrangements**

In Spring 2009 revised management arrangements were introduced in City Development which resulted in Strategy and Policy ceasing to exist as a separate service and its component parts transferred to other service areas in the Directorate. Economic Policy became part of Economic Services. Planning Policy, Graphics and Communications and Sustainable Development became part of the Planning Service and this service was subsequently renamed Planning and Sustainability.

### **5.0 Proposed Actions and Risks**

Proposed actions include the following;

- Continue to closely manage recruitment.

- Continue to review staffing and progress revised structures in service areas experiencing reduced income and workloads.
- Review of back office functions in services to identify further possible savings.
- Continue to actively progress the Early Leavers Initiative, particularly in areas of continued declining income.
- Services to prepare budget action plans to address areas of overspending and to identify alternative actions and review areas.
- Examine scope for the realignment of budgets within City Development where appropriate.
- Identify areas and budgets where spend is not fully committed to identify scope for making savings or reducing the level of spend.

The major budget risk is that income trends continue to worsen and that efficiency savings are not delivered in line with budget.

# **ENVIRONMENT AND NEIGHBOURHOODS    DIRECTORATE: 2009/10 BUDGET – QUARTER 1 REPORT**

## **1.0 Introduction**

This report sets out the financial position for Environment and Neighbourhoods Directorate for Quarter 1.

## **2.0 Overall Summary**

The Quarter 1 position for Environment and Neighbourhoods Directorate is a projected overspend of £1.3m. This is after assuming the successful implementation of identified actions.

## **3.0 Explanation of the Projected Over/Underspend**

Neighbourhoods and Housing Services are projecting an overall variation of £0.770m. Within Jobs and Skills residual staffing issues following the implementation of the new structure has resulted in a £437k pressure, whilst the £332k projected variation in Roseville Doors reflects a combination of the latest assumptions in respect of staffing and activity levels for doors production.

Within Environmental Services a forecast variation of £0.8m is largely due to a shortfall in car parking income, resulting from the downturn in the economy. Approx £300k is forecast to be lost from Suspended Bays (where Developers pay the Council to close on street parking bays); a further £160k shortfall will arise from the decision not to introduce Sunday / Evening Car Parking charges.

Within HEAS, a loss of external funding in the Fuel Savers team has created a £300k pressure. This loss of funding was announced after the 2009/2010 budget had been approved.

## **4.0 Proposed Actions and Risks**

The Directorate will continue to ensure that all identified actions reflected in this projection are successfully implemented, all items of expenditure are reviewed and that all sources of income are maximised.

In addition the Directorate will seek to implement actions identified in its Contingency Plan.

# CENTRAL AND CORPORATE FUNCTIONS: 2009/10 BUDGET – QUARTER 1 REPORT

## 1.0 Introduction

This report sets out the financial position for Central and Corporate Functions for Quarter 1 of 2009/10.

## 2.0 Overall Summary

The Quarter 1 position for Central and Corporate Functions is a projected overspend of £155k. This is after implementing action plans of £604k.

## 3.0 Explanation of the Projected Over/Underspend

The main reasons for overall projected overspend are:

### **Corporate Governance (overall balanced position)**

- Due to a review of the fee for Local Authority Property Searches and an improvement in the housing market there has been an increase in the level of income generated to date. The budget was based on an estimated level of searches and this has increased significantly. Based on a monthly average for the first three months of the year, £335K of additional income could reasonably be expected to be generated in 2009/10. However, there is a major risk in assuming that the additional income will be achieved. The assumption is that trends will continue at the current levels, but there is a great deal of uncertainty in the current housing markets and further increases/decreases in sales could lead to significant variation in the current forecast levels of income. More importantly, a recent review by the Information Commissioner regarding whether part of the information provided by a local land charges search has to be provided free of charge has just arisen nationally and this would have a significant impact on the income to be received if the decision is confirmed by the Government.
- Professional Legal Charges staffing costs are projected to increase by £566k reflecting increases in the volume of work requested. These additional costs will be recharged to clients.

### **Policy, Performance and Improvement (net overspend after actions £49k)**

- The projected overspend is due to additional pressures in Customer Services (mainly within the Corporate Contact Centre) required to meet the additional activity levels from customers due to the current economic climate. The delay in the introduction of Integrated Voice Recognition (IVR) has also created an additional pressure. Action plans have been implemented to arrive at a forecast overspend of £49k including seeking additional Government Funding, seeking to transfer further services into the Corporate Contact Centre, without any consequential increase in staffing resources. Savings based on the current pay offer compared to the budgeted 2% are also factored into the projection.
- Senior Management within PPI are currently reviewing forecast expenditure levels and projected spending to seek to identify further levels of savings that could be made to produce a balance budget for 2009/10.

## **Resources (net overspend after actions £106k)**

- The projected overspend of £106k is largely due to a shortfall in housing benefit overpayment 'income' amounting to £350k plus an adverse trading position on Commercial Services of £250k. This is offset by savings, mainly on pay, of £494k.
- The impact of receiving less income from housing benefit overpayments is projected at £350k. Additional resources are being channeled into 'intervention' work which is hoped will identify more overpayments and reduce the pressure.
- The Commercial Group is projecting an adverse trading position of £250k. This comprises pressures within Property Maintenance Building of £210k and Catering of £167k, offset by a better trading position within Property Cleaning of £39k, Education Cleaning £43k and Fleet Services £45k.
- The Property Maintenance Building function remains the most challenging area following the 2008/09 net overspend of £700k. The 2009/10 budget relies on the service realising a number of efficiencies in areas such as reduction in sickness as well as generating additional income. Significant internal resource has been employed in introducing enhanced financial controls as well as a new model of working with the Corporate Property Management service in 2009/10. Currently an adverse position of £210k is projected due to a lower income projection as well as slightly higher expenditure.
- Within the Catering function the Sales and Distribution Unit is projecting an adverse position of £94k. The reason is the budget assumed a higher throughput within the unit, but this has, to date, proved difficult to effect within the menu provision. The other area responsible for the overspend is Primary Catering (£73k), which is seeing an increased uptake in free meals and higher provision costs.
- In terms of pay, the projections take account of the fact that the latest pay offer is less than the 2% assumed in the 2009/10 budget. Also Financial Management is expected to underspend its staffing budget by £250k as a result of current vacancy levels.
- Work is ongoing within the directorate to identify further savings and efficiencies to achieve a balanced budget position by the end of the year.

### **4.0 Proposed Actions and Risks**

Work has already taken place to implement a new working model between Corporate Property Management and Property Maintenance sections to mitigate any potential overspend in this area.

Policy, Performance and Improvement have already produced action plans to fund the current projected staffing overspend and the impact of these will be monitored throughout the remainder of the year.