Leicester
City Council

CABINET **12th March 2007**
RESOURCES AND CORPORATE ISSUES
SCRUTINY COMMITTEE **15th March 2007**

REVENUE BUDGET MONITORING 2006/07– PERIOD 9

REPORT OF THE CHIEF FINANCE OFFICER

1.0 INTRODUCTION

1.1 The purpose of this report is to show a summary position comparing spending with the budget and highlighting the significant budget issues which have arisen so far. This is the third report in the regular cycle of monitoring, and the final report to members before outturn, for the 2006/2007 financial year.

1.2 Each Scrutiny Committee will receive only this covering report and the appendix (or appendices) which relate to its portfolio. The Resources and Corporate Issues Scrutiny Committee will receive the appendices that relate to its portfolio and a summary report considering the overall position.

1.3 The Cabinet will receive this covering report and the overall position for the Council.

1.4 Members of the Cabinet or the Resources and Corporate Issues Scrutiny Committee wishing to see the appendices relating to any portfolio not appended to the report should please contact the report author.

2. SUMMARY

2.1 The General Fund budget set for the financial year 2006/2007 was £232.5m. Together with the sums carried forward by service departments from 2005/2006 of £0.2m, the revised budget is now £232.7m. After 9 months of the year, 76% of the revised budgets of departments have been spent.

2.2 Departments continue to be working under significant budgetary constraints. The departments where this is most felt include Adults and Community Services, Housing and Resources, who are forecasting that they will need to draw on departmental reserves or capitalisation in order to achieve a balanced outturn.

3. RECOMMENDATIONS TO CABINET

3.1 The Cabinet is recommended to:

a) Note the changes made to the original approved budget for 2006/07;

b) Note the expenditure to date and the budgetary issues which have emerged so far this year;

c) Note the proposals put forward to ensure that spending is contained within the Departments' budgets;

3.2 Scrutiny Committees are asked to consider issues affecting their portfolio and make any observations to the Cabinet as they see fit.

3.3 The Resources and Corporate Issues Scrutiny Committee is asked to consider the overall position for the whole Council and make any observations it sees fit.

4. FINANCIAL IMPLICATIONS

The report is solely concerned with financial issues.

5. LEGAL IMPLICATIONS

There are no direct legal implications in this report. Peter Nicholls, the Head of Legal Services has been consulted in the preparation of this report.

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MARK NOBLE
CHIEF FINANCE OFFICER

Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)

Leicester City Council

CABINET — **12th March 2007**
RESOURCES AND CORPORATE ISSUES SCRUTINY COMMITTEE — **15th March 2007**

REVENUE BUDGET MONITORING 2006/07– PERIOD 9

REPORT OF THE CHIEF FINANCE OFFICER

SUPPORTING INFORMATION

1. INTRODUCTION

1.1 This report provides a summary position for all expenditure at the end of period 9 for the financial year 2006/2007.

1.2 The report is the third full report for this financial year, and shows the overall General Fund position against the original budget (£232.5m) adjusted to £232.7m for under/over spends carried forward from 2005/06 of £0.2m. Final outturn reports will be presented to Cabinet and Scrutiny committees in June.

2. SUMMARY OF THE REPORT

2.1 After 9 months of the year, 76% of the revised budgets of departments have been spent.

2.2 Significant budgetary pressures remain evident particularly within Resources, Housing and Adults and Community Services, who are forecasting that they will need to either draw on departmental reserves or use capitalisation in order to achieve a balanced outturn. The reasons for the forecast departmental overspends remain largely unchanged from those reported at period 7, the most significant of which are:

- Resources – Continued pressure on the Coroners service budget;
- Housing – The housing benefit administration service and increased demand for bed and breakfast;
- Adults & Community Services – Pressures remain on community care services including home care, residential placements and adult mental health.

2.3 The Housing Revenue Account (HRA) is forecasting a deficit of £1.5m, which is slightly smaller than the budgeted deficit for the year of £1.7m. This is mainly as a result of reduced capital financing costs. The forecast balance at year-end is £1.8m, which is £0.3m higher than the £1.5m minimum balance set by Cabinet.

2.4 Corporate budgets are anticipating a saving of over £3m. This is mainly due to high cash balances earning interest but also some timely borrowing decisions. The budget for interest earned on cash balances was increased significantly in 2006/07 but continues to surpass expectations.

3. BUDGET FOR 2006/07

3.1 The General Fund budget for the financial year 2006/07 is **£232.5m**, of which £1.3m is being funded from general reserves resulting in a net budget requirement of £231.2m. After adding the approved carried forward amounts from 2005/06 (**£0.2m**) the budget for the year is now **£232.7m**.

3.2 Each Corporate Director is required by Finance Procedure Rules to ensure that services are delivered within budget, and has the responsibility of providing a framework for monitoring the budgets within the guidelines provided by the Chief Finance Officer.

3.3 Financial control is generally maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year. However 2006/07 is unique due to the Integrated Services Project (ISP). This project has reconfigured Council services in response to the Children Act 2004. A report was approved by Cabinet on 30th October 2006 setting out the operational budgets relating to the new departments, however, the budget transfers relating to support services are not yet finalised. In addition to this, the new departmental structures are not yet reflected in the council's core financial management and information system. Therefore, in order to ensure robust financial management arrangements are in place during this period a budget monitoring protocol established earlier in the year and endorsed by Senior Management will continue to be applied.

3.3 Corporate Directors are responsible for their controllable budgets. These include employee costs, running costs and income. 'Indirect expenditure' or 'below the line charges' are the responsibility of the service provider with the cost of those services being included in the providers' controllable budgets.

3.4 The table below details the revised (subject to review) budget for the authority presented in the new departmental structure.

Table 1	Restated Original Budget for 2006/07	Approved Carry forwards	Virements	Revised Budget for 2006/07
Department	**£000**	**£000**	**£000**	**£000**
Chief Executive's Office	2,395.8	-	(1,051.5)	1,344.3
Children & Young People	54,950.7	-	83.5	55,034.2
Regeneration & Culture	58,943.5	6.9	1,644.7	60,595.1
Housing	6,298.4	(32.4)	233.8	6,499.8
Housing Benefits	487.8	-	-	487.8
Adult & Community Services	68,486.4	210.1	518.7	69,215.2
Resources	18,269.5	-	1,392.2	19,661.7
Total Departments	**209,832.1**	**184.6**	**2,821.4**	**212,838.1**
Corporate Budgets				
Miscellaneous	8,810.4	-	(2,569.3)	6,241.1
Capital Financing	17,165.0	-	-	17,165.0
General Fund (excl. net recharges)	**235,807.5**	**184.6**	**252.1**	**236,244.2**
Net Recharges	(3,272.6)	-	(252.1)	(3,524.7)
TOTAL GENERAL FUND	**232,534.9**	**184.6**	**0**	**232,719.5**

4. SUMMARY OF PROJECTIONS

4.1 The results of the monitoring of the budgets are summarised in Appendix 1.

5. SIGNIFICANT ISSUES ARISING FROM DEPARTMENTS

The budgetary issues which have emerged to date are as follows:

5.1 Chief Executive's Office

5.1.1 The Chief Executives office is currently forecasting a small overspend mainly as a result of issues relating to the funding for the Partnership Team. The budget will be balanced by the merger of the chief executive's and partnership teams.

5.2 Children & Young People

5.2.1 The budget of the Children and Young People's Department has two components:

(a) General Fund services, which are primarily financed from Revenue Support Grant (RSG) and council tax; and the
(b) the schools block, which is financed from the Dedicated Schools Grant (DSG).

5.2.2 Since the last report at period 7, the department has taken a longer term view of their finances, in view of the risks relating to setting up the new arrangements within a context where, for example:

- there are major work programmes e.g. BSF, ISP upon which the department is engaged;
- there will be a need to spend monies in order to ensure that the reconfigured department is adequately equipped and appropriately staffed; and
- the 2007/08 budget is tightly drawn in view of the scale of transformation.

The departmental management team has therefore embarked upon a financial plan which addresses the 2006/07 and 2007/08 budgets as a cohesive whole.

5.2.3 In 2006/07 a year-end underspend approaching £50k is anticipated. As at period 9 there are a number of variances, both underspends and overspends, across the department. Those of significant value are highlighted below:

- Independent schools (£427k overspend – Schools Block) – this is forecast to overspend because of a large increase in the number of pupils supported by this budget, as local provision is not available to meet their needs. The budget is highly sensitive to demand as a single placement can cost in excess of £100k.

- Mainstream statementing (£383k overspend – General Fund) – The budget reimburses the costs of support to statemented pupils in mainstream schools. The spend on this budget is determined by the support needs identified in pupil statements.

- Home to school transport (£290k overspend – General Fund) –Information suggests there are cost pressures in this area, but the position is being reviewed in conjunction with the Regeneration and Culture department.

- Child placements (£250k overspend – General Fund) – There is continued pressure on this budget, which covers payment to foster carers and adoptive parents.

- Transport - Looked After Children (£413k overspend - General Fund) - Based on 2005/06 costs, the overspend arises from increased cost pressures and demand.

- Nursery education grants (£309k underspend - Schools Block) – this is predominantly arising from lower than projected take up of eligible child care places at the new Children's Centres. This is expected to be fully spent next year, as the roll out of the early years strategy becomes embedded.

- Premature retirement costs (£200k underspend - General Fund) - The projected underspend is on the general fund element of the budget. From 1st April 2006, costs relating to all new retirements fall to the Schools Block for funding.

- Learning Services (£280k underspend – General Fund) – this arises from actions being taken to build up momentum to ensure the required 2007/08 saving materialises. It also anticipates a significant application of Standards Fund grant but whether or not this materialises will be dependent upon a range of financing decisions that are taken at year end.

5.2.4 Schools
Schools have delegated budgets for which they are responsible and they are required to produce outturn statements to show their predicted spend for the year. The department oversees the position, particularly concentrating on schools at risk of deficits. There are currently 6 schools that are predicting a deficit at the end of 2006/07 (3 primaries, 1 special, and 2 secondary). In general schools are predicting that they will draw on the £12m of reserves that they held at the beginning of the year, although the level and management of these balances is currently being reviewed by the department.

5.3 Regeneration & Culture

5.3.1 The department is forecasting a **balanced outturn** on a net budget of £60.6m. There remains some uncertainty with respect to savings still to be found within the Highways and Transport division and also the final outturn for DeMontfort Hall within Cultural Services. However there are sufficient contingencies within the department's overall budget to prevent an overspend should these items not turn out favourably.

5.3.2 Pressures on the Highways and Transport Division's budget mainly arise from the divisional organisational review savings target (£165k), shortfalls in income (£109k), probable overspends on concessionary fares and subsidised bus routes (£80k). These pressures will be offset by savings from staff vacancies, additional income relating to parking near the football ground with the remainder to be either identified during the final part of the year or offset by savings and contingencies in other divisions of the department.

5.3.3 Within the Cultural Services Division a breakeven position is forecast. However despite the DeMontfort Hall Christmas programme exceeding the 75% capacity target, there have been additional running costs, which means an overall breakeven is contingent upon it reaching its overall income target. The Libraries Service is incurring higher staffing costs than anticipated and these are being offset by restricting or deferring non pay costs to ensure a breakeven.

5.3.4 The departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) are all forecasting a break-even position.

5.4 Housing

5.4.1 The department has significant financial pressures in two areas during the current year and capitalisation of revenue expenditure will be required in order to minimise the overspend. The backlog in dealing with housing benefit claims, due to an IT problem, created financial pressures as agencies had to be employed to clear the backlog. The backlog has now been resolved. It is anticipated that additional expenditure of £220k will be incurred as a result. Secondly, there has been a significant increase in the use of bed and breakfast, which is a volatile area and difficult to control. The predicted overspend in this area is £150k.

5.4.2 The departmental overspend, before capitalisation, is £455k. After capitalisation of the above overspends the remaining overspend is £85k. The Director is making every effort to reduce this overspend, but if this is not possible then further capitalisation may be required.

5.4.3 Housing Benefit Payments

The 2004/05 subsidy claim has still not yet been finalised by the Department of Work and Pensions (DWP). At this stage of the year this claim would have normally been finalised, however there has been a delay at the DWP and a number of authorities are still awaiting the outcome. There were a number of issues reported by the District Auditor during the course of their audit of this claim and the authority has already made a provision of £1m to meet the potential costs of any claw back. The current estimate suggests that the level of claw back by the DWP, as a worst case scenario, is £1.1m.

There are a number of factors that can affect this volatile budget which can result in significant additional costs due to the scale of activities (£109m payments per year).

5.4.4 Housing Maintenance Trading Unit

The present forecasts indicate a surplus close to the budgeted surplus of £0.2m.

5.4.5 Housing Revenue Account

The original budget for the HRA indicated a planned £1.7m deficit for the year to be met from HRA balances, which stood at £3.4m as at 31st March 2006. The latest forecast indicates a small reduction in the deficit to £1.5m. There are a number of variances which have contributed to this underspend, the most significant of which is reduced capital financing costs (£0.7m). This is due to debt rescheduling and reduced prudential borrowing and has been offset by an increase in negative subsidy payable to the government (£0.5m).

5.5 Adult and Community Services

5.5.1 The former Adult and Community Services Department had been forecasting an underlying overspend for some time, which it planned to address by management action and one-off use of reserves and carried forward monies. A number of additional risks and uncertainties associated with major service and organisational reviews such as Adult Learning Options and the Integrated Services Programme have also been highlighted, and these remain as risks at the present time.

5.5.2 The areas with net overspends continue to be Community Care (Adults) and Older People's Divisions. This reflects the pressures on community care services evident for a number of years and the level of commitments at the start of the year, including home care, residential placements, adult mental health services and transport. Managers have continued to explore options for reducing the forecast overspend, although these are limited due to the requirement to meet assessed needs under the Fair Access to Care criteria and the need to achieve urgent performance improvements and targets in key areas.

5.5.3 There are continuing concerns that the requirement for the NHS to achieve financial balance this year will further impact on the Department. Examples locally include cost improvements being required of the NHS Trust providing Learning Disability and Mental Health services and the need to commit to "invest to save" strategies such as Intermediate Care services.

5.5.4 As reported previously, a number of actions have been implemented to manage the position, including:

- Consistent application of eligibility criteria for social care
- Reviewing whether vacancies need to be filled
- Maximising the use of external income and partnerships
- Monitoring the progress of the Adult Learning and Skills Service reconfiguration, and planning for the appropriate use of reserves
- Absorbing Anti-Social Behaviour costs within the wider Crime and Disorder budget
- Challenging charges under Joint Service Agreements
- Deferring payment of an "above inflation" increase to independent sector residential care providers until January 2007, in recognition of sector-specific cost increases.
- Deferring investment in Information Technology. This will impact on progress to modernise ways of working, keeping equipment updated and maximising the benefit of major initiatives such as the Electronic Social Care Record.
- Requiring the additional in-year investment in staff to improve performance against specific targets to be contained within existing resources and spending forecasts.

5.5.5 After taking these actions into account, the potential remaining overspend should be reduced to a level that can be offset by the use of funds and reserves brought forward from the predecessor departments in 2005/06, one-off income and by maximising the use of Government grants to support core priorities. However, the use of such one-off monies will reduce future flexibility and limit the level of service development and initiatives that can be funded from these grants.

5.5.6 Through these measures, it is anticipated that the Department will remain within its budget this year.

5.6 Resources

5.6.1 The Department has previously reported some specific services with financial pressures which are expected to lead to overspends by the year end. These services continue to forecast an overspend:

- The Coroners service - The forecast overspend has risen from £250k at period 7 to £300k at period 9.
- The childcare vouchers scheme - forecast overspend continues to be £80k
- Building Cleaning client costs - forecast overspend continues to be £73k

5.6.2 There are also some other areas forecasting small overspends but it is still expected that much of the overspend will be offset by savings in other areas of the Department. Despite this, however, it remains likely that there will be a call on the Department's Investment Reserve in order to balance the outturn. This would be undesirable, as the reserve has been created for the purpose of facilitating investment related to service development and improvement, not to fund budget pressures.

6. CORPORATE BUDGETS

6.1 This budget (£24.8m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£17.2m) is by far the largest element of the budget but it also includes bank charges, audit fees, levies and other miscellaneous expenditure.

6.2 The Capital Financing budget is currently forecasting a saving of over £3m. As previously reported, this saving mainly reflects large net inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. There has been a growing trend of increasing interest income now over several years. The budget for this interest is always set prudently as cash balances can be very volatile, but, although the budget for 2006/07 was set at higher levels than previous years, the underlying cash balances will still exceed expectations, thereby earning additional interest. Main contributory factors are the change in funding for schools, which has resulted in DSG being received earlier than equivalent revenue support grant (RSG), and delays to the LAA programme. Savings are also being made due to delays in the CLABS replacement programme, but these savings will be needed to meet consequent price increases. Further reasons for the saving include good borrowing decisions: low interest rates were exploited at the end of 2005/06, and borrowing undertaken in advance for the entirety of the 2006/07 capital programme. This money has been invested pending need, and is benefiting from the increase in short term interest rates seen in recent months.

7. GROWTH & REDUCTIONS

7.1 Departments have submitted returns on the growth and reductions approved as part of their 2006/07 Departmental Revenue Strategies. There are no items of major significance to report. However, in addition to those reported at period 7 by the Children and Young Peoples department, potential shortfalls in the following areas are being reported, all of which have been built into their overall forecast:

- Adults and Community Services – The refocusing of high value specialist residential care towards in-house elderly persons homes rather than the independent sector anticipated savings of £100k. No specific actions have yet been taken although a number of improvements and efficiencies have been implemented or are being progressed;

- Housing Options office moved delayed (£37k);

- Resources – Trading Services efficiencies (£114k) due to unexpected cost pressures.

8. INVOICE PAYMENTS

8.1 The Council has set a target to pay 92% of all undisputed invoices on time (2005/06 target: 91%) A payment is deemed to be "on time" if it is paid within 38 days of the invoice date. Performance against this target varies between departments and, if the target is to be achieved, it is important that any deficiencies in Departments' arrangements are identified and rectified promptly. The performance for the month of December was 96.3%, and the cumulative position for the 9 months to date 92.4%. The performance for the remainder of the year needs to run at around 92% if the target is to be achieved. The performance of each department is shown in the table found at Appendix B.

9. FINANCIAL INDICATORS

9.1 As part of the 2006/07 budget report, Cabinet and Council approved various financial indicators taken from the council's balance sheet and cashflow statements. These are monitored and reported as part of the regular cycle of budget monitoring reports.

9.2 The indicators are attached at Appendix C to this report and include the position as at 1st April 2006 together with a forecast for the year ended 31st March 2007.

10. OTHER IMPLICATIONS

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

11. DETAILS OF CONSULTATION

11.1 All departments are consulted on revenue budget monitoring.

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Date: 31/1/2007

MARK NOBLE
CHIEF FINANCE OFFICER

GENERAL FUND REVENUE
BUDGET MONITORING PERIOD 9 2006/07

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 9	Forecast Outturn	Forecast Variance over (under) spend - before action is taken	Forecast Variance
	£000	£000	£000	£000	£000	£000	£000	%
Chief Executive's Office	2,395.8	0.0	(1,051.5)	1,344.3	1,477.0	1,363.6	19.3	1.4%
Children and Young People *	54,950.7	0.0	83.5	55,034.2	32,284.4	54,987.6	(46.6)	(0.1)%
Regeneration & Culture	58,943.5	6.9	1,644.7	60,595.1	49,938.6	60,595.1	0.0	0.0%
Housing	6,298.4	(32.4)	233.8	6,499.8	4,736.5	6,584.4	84.6	1.3%
Housing Benefit	487.8	0.0	0.0	487.8	365.8	487.8	0.0	0.0%
Adult & Community Services	68,486.4	210.1	518.7	69,215.2	54,111.7	69,289.4	74.2	0.1%
Resources	18,269.5	0.0	1,392.2	19,661.7	18,673.4	19,936.8	275.1	1.4%
Total Departments	**209,832.1**	**184.6**	**2,821.4**	**212,838.1**	**161,587.4**	**213,244.7**	**406.6**	**0.2%**
Corporate Budgets								
Miscellaneous	8,810.4	0.0	(2,569.3)	6,241.1				
Capital Financing	17,165.0	0.0	0.0	17,165.0				
Total Corporate Budgets	**25,975.4**	**0.0**	**(2,569.3)**	**23,406.1**				
TOTAL GENERAL FUND	**235,807.5**	**184.6**	**252.1**	**236,244.2**				
Net Recharges	**(3,272.6)**	**0.0**	**(252.1)**	**(3,524.7)**				
TOTAL GENERAL FUND	**232,534.9**	**184.6**	**0.0**	**232,719.5**				

Departmental comparisons between 05/06 and 06/07 are not valid due to departmental restructuring and differences in the treatment of grant income, including DSG.

APPENDIX B

INVOICE PAYMENT STATISTICS
APRIL 2006 TO DECMBER 2007 (9 MONTHS)

	INVOICES PAID "ON TIME"	
	No.	£
EDUCATION	26,578	58,628,385
% of totals	92.2%	96.9%
HOUSING	27,148	34,884,567
% of totals	93.7%	90.6%
REGENERATION & CULTURE	34,993	64,712,111
% of totals	88.8%	91.6%
RESOURCES	24,026	46,889,535
% of totals	94.2%	94.7%
SOCIAL CARE & HEALTH	24,977	22,162,684
% of totals	95.1%	93.9%
TOTAL	137,722	227,277,283
% of totals	92.4%	93.6%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
Period 9: 2006/07

Financial Indicator	**Actual as at 1st April 2006 £'000**	**Forecast at 31st March 2007 £'000**
Balance Sheet Items		
Specific Reserves & Balances:		
Earmarked Reserves	38,921	32,100
Earmarked Capital Reserves	14,421	8,200
Housing Revenue Account	3,371	1,813
Debtors (excl. Bad Debts Provision)	68,520	70,040
Creditors	74,771	80,140
Long-Term Borrowing	323,895	323,895
Cashflow Movements		
Increase/(Decrease) in all borrowing	73,560	24,969