



Leicester
City Council

**CABINET
PERFORMANCE AND VALUE FOR
MONEY SELECT COMMITTEE**

15th October 2007

18th October 2007

REVENUE BUDGET MONITORING 2007/08– PERIOD 4

REPORT OF THE CHIEF FINANCE OFFICER

1.0 PURPOSE OF REPORT

- 1.1 The purpose of this report is to show a summary position comparing spending with the budget. The report is the first in the regular cycle of reports for the 2007/2008 financial year showing the budget issues that have arisen so far. Further reports will be presented to Cabinet and the Performance and Value for Money Select Committee for Periods 7, 9 and Outturn.

2. SUMMARY

- 2.1 The General Fund budget set for the financial year 2007/2008 was £240.1m. Together with the sums carried forward by service departments from 2006/2007 of £0.4m, the revised budget is now £240.5m. After 4 months of the year, 34.3% of the revised budgets of departments have been spent.
- 2.2 Although it is too early in the year to make detailed projections of the outturn, it is clear that there are a number of budgetary pressures within departments. Nonetheless, every department is taking action where necessary to contain spending within budget.
- 2.3 The areas in which significant budgetary pressures exist are as follows:
- Children and Young People's Services – Building Schools for the Future project development costs and independent school placements for pupils with special needs.
 - Adults and Community Services – Pressures remain on Community Care Services, Older Peoples Services and the Adult Learning Service; and
 - Resources – Coroners Service, Operational Property, and Land Charges.

Further details on the departmental budgetary pressures are provided in Section 6 of this report.

- 2.4 Corporate budgets are anticipating significant savings relating to capital financing costs. This is mainly due to the continued growth in the level of underlying cash balances, slippage on the capital programme, and also some good borrowing decisions. These savings will provide a hedge against any further losses arising from claw back of housing benefit grant.

3. RECOMMENDATIONS TO CABINET

3.1 The Cabinet is recommended to:

- a) Note the changes made to the original approved budget for 2007/08;
- 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;
- d) Consider what other action is necessary to prevent departments from overspending.
- e) Note the progress made towards achieving the Business Improvement Programme savings targets for 2007/08, as outlined in Section 8 of this report.
- f) Approve the virements from corporate budgets in respect of new policy developments, as outlined in paragraph 7.3.

3.2 The Select Committee is asked to consider the overall position for the whole Council and make any observations it sees fit.

4. BUDGET FOR 2007/08

- 4.1 The General Fund budget for the financial year 2007/08 is **£240.1m**. After adding the approved carried forward amounts from 2006/07 (**£0.4m**) the budget for the year is now **£240.5m**.
- 4.2 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.
- 4.3 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.

4.4 The table below details the provisional revised net direct budget for the authority.

Table 1	Original Budget for 2007/08	Approved Carry forwards	Virements	Revised Budget for 2007/08
Department	£000	£000	£000	£000
Chief Executive's Office	981.4	-	-	981.4
Children & Young People	52,876.9	-	-	52,876.9
Regeneration & Culture	60,030.1	39.6	-	60,069.7
Adults and Housing	73,625.8	353.5	-	73,979.3
Housing Benefits	507.3	-	-	507.3
Resources	27,044.3	-	(220.0)	26,824.3
Total Departments	215,065.8	393.1	(220.0)	215,238.9
Corporate Budgets				
Miscellaneous	8,758.7	-	(280.0)	8,478.7
Capital Financing	19,266.1	-	-	19,266.1
General Fund (excl. net recharges)	28,024.8	-	(280.0)	27,744.8
Net Recharges	(3,024.6)	-	500.0	(2,524.6)
TOTAL GENERAL FUND	240,066.0	393.1	-	240,459.1

5. SUMMARY OF PROJECTIONS

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

6. SIGNIFICANT ISSUES ARISING FROM DEPARTMENTS

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

6.1 Chief Executive's Office

6.1.1 There are no major issues of concern in the Chief Executive's Office and the department is presently forecasting a balanced outturn.

6.2 Children & Young People

6.2.1 At this early stage of the year, the department faces budget pressures totalling £0.2m on their general fund budgets and pressures on schools block services totalling £0.6m, before application of reserves and contingencies. This reflects the tightness of the budget and the service pressures emerging as the department engages in major service improvement initiatives such as Building Schools for the Future, school improvement and the inclusion strategy. Members are asked to note that the general fund forecast in particular is based on a number of assumptions around these initiatives, which could change as the year progresses, and which could affect the call on departmental reserves and contingencies to maintain a balanced budget overall.

6.2.2 There are a number of significant variations on the general fund element of the department's budget including:-

- a) Building Schools for the Future – Financial close of Phase I is taking longer than anticipated to reach and longer term planning is also underway with particular emphasis on initiating Phase II. The current budget for client side costs will not be sufficient and work is taking place to quantify the cost pressures in more detail.
- b) Standards Unit - The Unit reports a number of significant budget pressures, particularly on school improvement partners and the use of external specialist professional staff to cover for vacant tier 3 posts. The financial position is currently being reviewed in detail to further quantify the pressures and explore potential options for offsetting them.
- c) Social Care and Safeguarding – The division currently forecasts an underspend of £300k. This has arisen from the early completion of actions for the reconfiguration of services in respect of disabled children, and is one-off this year as the actions come ahead of the savings expectation in the budget. Further one-off savings have resulted from maximising the use of external and partnership funding.
- d) Departmentally held budgets – Underspends of over £200k are expected on budgets for premature retirements in schools approved before April 2006, and the transport element of the Secondary Review budget.

6.2.3 Major variations in the schools block budget include a pressure of £0.5m on independent school placements for pupils with special educational needs, due to a further increase in the number of pupils assessed as requiring such places. The budget to reimburse mainstream schools in the city for the cost of support to statemented pupils is expected to overspend by £83k, with a further £63k overspend expected on support for early years pupils. Costs of the special education service as a whole is difficult to forecast, as costs can be significantly affected by a relatively small change in the number of pupils requiring support. These pressures, together with other small overspends, will be met by underspends in areas, such as nursery education grants (£230k), and premature retirement costs (£100k), with the remainder funded, subject to approval by the Schools Forum, from the Schools Block Contingency.

6.2.4 Schools

Schools collectively have budgeted to withdraw in the order of £7m from their balances, which stood at £15m as at 31st March 2007. However, this includes planned contributions to contingencies at a number of schools, and based on previous years' experiences it is felt unlikely that such a large withdrawal will actually occur in practice - all the forecast spending may not take place, and further funding such as the Standards Fund may be received by schools as the year develops. However, the Department recognises there are new pressures on schools such as the job evaluation scheme for non-teaching staff, which could lead to higher than usual withdrawals and use of planned contingency sums.

6.3 Regeneration & Culture

- 6.3.1 At this early stage of the year the department is forecasting a **balanced outturn** against a net budget of £60m.
- 6.3.2 Current forecasts indicate that the department's main income streams (De Montfort Hall, planning fees, burial fees and car parking income) are all broadly in line with the budget. The most significant risk in achieving a balanced outturn relates to potential additional costs in operating the concessionary fare scheme.
- 6.3.3 The department's four traded services (Fleet Transport, Operational Transport, City Highways and Catering) are all currently forecasting a break-even position. However, there is a significant risk of a deficit being generated by the City Catering service. This is due to the continued subsidy of free school meals. Representations have been made to the schools forum in order to obtain additional funding of approximately £200k, and a further report addressing this and other longer term issues is currently being prepared by the department.

6.4 Adults and Housing

- 6.4.1 The Department is currently facing a budget shortfall of £2m if no action is taken to reduce expenditure or increase income. This very serious situation arises from a combination of factors outlined in the following paragraphs.
- 6.4.2 The new Adults and Community Services Department inherited three significant budget issues –
- (i) adult social services had traditionally overspent, which was offset by underspends on Childrens Social Service's in the former Social Care and Health Department;
 - (ii) adult learning, which was facing reduced income from the LSC (this has now been addressed);
 - (iii) community centres had, and still have, insufficient repair and maintenance funding, which was temporarily addressed with one off funding this year, pending further review.
- 6.4.3 A sum of £0.5m was transferred out of the Department budget as a Business Improvement Programme (BIP) saving anticipated from corporate procurement of agency staff, on the basis the Adults and Housing Department would save money from lower unit costs. The present position in respect of this review is described in paragraph 8.5.
- 6.4.4 The £350k efficiencies anticipated from the merger of the Adults and Community Services Department and the Housing Department have been achieved through the reduction in support staff and one less Corporate Director.

- 6.4.5 The following actions have now commenced to restrict expenditure:
- a) reviewing whether vacancies need to be filled
 - b) maximising the use of external income and partnerships
 - c) deferring purchase of PCs
 - d) reducing expenditure on conferences and seminars
 - e) reducing the cost and number of residential placements
 - f) restricting administrative expenditure
 - g) reviewing the need for certain buildings
- 6.4.6 In the current year these actions will not be sufficient to bring expenditure in line with budget and the following further actions are being considered:
- h) capitalise some expenditure
 - i) use departmental reserves
 - j) deferring non Health and Safety expenditure on community centres

At this stage it is anticipated that the above actions will be able to restrict expenditure to the budget. The situation will be closely monitored

Housing Benefit Payments

- 6.4.7 The cost of housing benefit payments (£108m) is almost entirely met by government grant. The current forecast indicates **outturn close to budget**, although there are a number of risks and uncertainties that can affect this volatile budget including:
- Possible grant clawback by the DWP arising from the finalising of the 2005/06 claim (£0.9m was deducted in respect of 2004/05);
 - Issues and variations relating to the 2006/07 grant claim which is presently subject to audit; and
 - Overpayments/overpayment recoveries, to the extent that these exceed budget.
- 6.4.8 With this in mind and in order to mitigate the impact of these uncertainties, the authority has already set aside a provision of £2.5m against possible clawback of grant relating to the 2005/06 and 2006/07 claims.

Housing Revenue Account

- 6.4.9 The original budget for the HRA was a planned £0.5m surplus for the year. The current forecast indicates a surplus of £1.3m, a favourable variance of £0.8m. This variance is largely due to savings on district heating energy costs, due to substantial reductions now achieved in negotiating new prices for electricity and particularly gas, following the earlier increases which were effective from June 2006. This saving (£900k) has been partially offset by increased district heating employee costs and increased central recharges.

6.4.10 HRA balances stood at £2.9m as at 31st March 2007 and this forecast surplus (£1.3m) would increase balances to £4.2m by March 2008. These balances are ring fenced by law for housing purposes. It is intended that they will be used to will meet short term costs of the council new pay and grading scheme for staff employed in the HRA and trading service, to support the HRA capital programme, and to help meet the Decent Homes Standard by 2010.

6.5 Resources

6.5.1 The Resources Department is under very substantial budget pressure. Some of the service areas causing this have been identified as problematic previously: the coroner's service (£360k); operational property (including Admin buildings) (£320k) and Legal Land charges (£74k). The recovery plan drawn up a couple of years ago to address the Land Charges problems has largely been successful, but recent changes in the housing market have now affected income levels adversely.

6.5.2 The budget has also been constrained by the Business Improvement Programme, which has resulted in the setting up of two substantially changed services in the department (Human Resources and ICT), which were previously largely decentralised.

6.5.3 There are also pressures elsewhere within the Democratic Services division, where the recent major staffing review is still bedding in, and within the Legal Services where significant costs have been incurred on modernisation of the accommodation in "A" block.

6.5.4 The Department does not have sufficient reserves to cover this level of forecast overspend, so measures will be put in place to restrict all non-essential expenditure – including recruitment – until the forecast outturn has been brought down to a manageable position.

7. CORPORATE BUDGETS

7.1 This budget (£27.8m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£19.3m) is by far the largest element of the budget but it also includes bank charges, audit fees, levies and other miscellaneous expenditure.

7.2 Significant savings are anticipated in capital financing costs. There are three reasons for this:-

- a) Continued growth in the underlying level of cash held by the authority – this has been a trend every year and has continued this year;
- b) Slippage in capital expenditure;
- c) Good borrowing decisions – substantial sums were borrowed in advance of capital expenditure when interest rates were lower than they are now, and we are now benefiting from increased interest rates on sums which have not yet been spent.

These savings will provide a hedge against any further losses of housing benefit grant through claw back.

7.3 The Cabinet at its meeting on the 3rd September 2007 agreed a number of new policy developments together with specific funding arrangements. There are a number of items which have ongoing financial implications, and it has been agreed that these will be a pre-commitment on the 2008/09 budget. However approval is sought to vire from corporate budgets the sum of £56k to fund the part year effect in 2007/08 of these developments. This includes:

- Extending library opening hours - £28k
- Street cleaning machines - £10k
- Jewry Wall museum opening hours - £18k

8. **BUSINESS IMPROVEMENT PROGRAMME**

Budgeted savings

8.1 In the 2007/08 to 2008/09 budget strategy the Business Improvement Programme was required to generate £2.6m of savings in 2007/08, provisionally rising to £4.3m by 2008/09. This was split between sums which were to be deducted from departmental budgets, sums which will generate savings in corporate budgets, and sums expected in future years which must remain as corporate provision for the time being. The breakdown is as follows:

	2007/08 £'000	2008/09 £'000	2009/10 £'000
Deductions from Departmental Budgets			
<u>Support Services Review</u>			
HR Improvement plan	400	1,200	1,200
ICT improvement plan	600	600	600
<u>Procurement</u>			
Agency Contract	1,000	1,000	1,000
Property Maintenance	300	300	300
Corporate Savings			
Disposal of Corporate Operational Properties	270	270	270
Corporate Provisions			
Further property review savings		330	330
Further support service savings		600	600
Total	2,570	4,300	4,300

Allocation of savings

8.2 A substantial and difficult technical exercise has taken place with officers to identify and transfer budget provision from departments to the now centralised ICT and HR functions, and to determine the most appropriate basis for allocating the agency savings to departments. This is now finalised, with the following exceptions:-

- a) A one month delay in the implementation of the agency contract, resulting in only £0.9m of savings being allocated. The balance will be a cost to corporate budgets in 2007/08.

- b) Delays in centralising ICT purchasing budgets resulting in £280k of unallocated savings remaining within corporate budgets.

Progress towards achieving savings

- 8.3 **HR Improvement plan** – A new staffing structure costed against the £1.2m savings target for 2008/09 onwards has been approved, and all staff will be confirmed in their new posts by the end of September 2007. The service is going through a period of major change, in addition to which, there are substantial pressures and capacity shortages arising from the implementation of the new single status framework agreement and equal pay. The position, in terms of achieving the savings target for 2007/08 (£400k), is currently being reviewed to ensure it can be achieved.
- 8.4 **ICT Improvement plan** – Savings in staffing and PC procurement costs have now been achieved. Achieving the other expected savings from procurement of IT requires consolidation of the IT purchasing function and the associated budgets. As reported above, delays in centralising ICT purchasing budgets have arisen and these may not now be centralised until 2007/08. This has put pressure on the overall savings target, and it is essential that this issue is resolved in order to prevent it being a problem and to save the money. The Service Director, Information is working to find the savings from across the service for 2007/08 by delaying some senior recruitment, through one off under-spends and by ensuring the full recovery of support costs from the 101 grant funded service.
- 8.5 **Procurement - agency contract** – The new contract commenced operation on 30th April, four weeks later than planned due to technical software problems. The contract experienced a number of teething problems which are gradually being resolved. Present indications are that the saving for each hour of agency time purchased is less than was originally envisaged, and this is being explored with the suppliers. The forecasts suggest the Council will save around £0.9m this year, although this may not be enough given that some savings will fall outside the general fund. However, the first few months of the year suggest that use of agency staff per se has fallen by about 20%, which may be (in part) because the new arrangements have forced attention on existing placements for which permanent staffing arrangements may have been preferable. In effect, this will increase the saving made by the Council if the trend continues. Savings are being monitored on a monthly basis.
- 8.6 **Procurement – property maintenance** – The £300k savings target has been allocated to the Central Maintenance Fund. The Property Service are working towards the implementation of framework contracts in order to bring contracts together and reduce the supplier base to achieve greater value for money. Opportunities for collaborative working with other local authorities are also being investigated. At this stage of the year the level of savings likely to be achieved cannot be quantified.

8.7 **Disposal of surplus properties** – This saving relates to the additional interest earned from capital receipts generated following the disposal of surplus properties. Due to the nature of releasing properties on to the market, the time frame has had to be revised, this means there will be a shortfall in the region of £130k in relation to the 2007/08 saving target. However, overall it is anticipated that the savings will be achieved and that the forecast shortfall in 2007/08 will be made up in future years.

9. **JOB EVALUATION**

9.1 Cabinet, at its meeting on the 23rd July 2007, approved the Single Status Framework Agreement and the implementation thereof, subject to outstanding details being approved by the Corporate Director of Resources in consultation with the Leader.

9.2 The part year ongoing financial implications (excluding administrative costs) in relation to 2007/08 total £1.8m, of which £0.9m relates to the schools block, £0.2m HRA, and the remainder (£0.7m) falls upon the general fund. The schools block element will mostly fall on individual schools and schools were advised to anticipate additional costs at this level. The cost to the HRA is minor and can be met from HRA balances, as indicated at paragraph 6.4.11. The general fund element (£0.7m) together with the costs of protection (£2.4m) will be met from the provision included within the budget of £3.1m.

9.3 Implementation of the agreement requires adjustments to be made to departmental budgets. Cabinet on the 23rd July delegated authority to the Chief Finance Officer to action these adjustments to reflect the costs of the agreement. Work is currently being undertaken in order to action these budget adjustments.

10. **PAY AWARD**

10.1 Negotiations between local government employers and trades unions are still ongoing, and the latest offer from the employers is 2.475% (3.4% for employees on the bottom scale point 4). The provision for pay inflation included within the 2007/08 budget is 2.5%, any increase above this sum will be an additional budgetary pressure for the authority to absorb (around £0.2m for every 0.1% on general fund services).

11. **MAJOR PARTNERSHIPS**

11.1 Best practice suggests members should monitor the financial performance of major partnerships. It is anticipated that this newly introduced section of the report will be improved and expanded upon as the year progresses.

11.2 **Learning Disabilities Pooled Budget**

This arrangement, under Section 31 of the Health Act 1999, is for the joint commission of various services and is in partnership with Leicester City Primary Care Trust. The city council acts as the host and has lead responsibility for its operation. The total budget for the pool in 2007/08 amounts to £24.2m, of which £11.7m is the city council's contribution and £12.5m the PCT's. At this stage of the year the forecast indicates an under-spend of £228k or 1%. Any under or over spends are carried forward into the next financial year.

11.3 Supply of Community Equipment – Pooled Budget

This arrangement, also under Section 31 of the Health Act 1999, is for the supply of community equipment in partnership with Leicestershire County Council, Rutland County Council and six other primary care trusts. Leicester City Primary Care Trust acts as the host. The city council's budgeted contribution in 2007/08 is £0.4m. At this stage of the year there is no indication of any under or overspending.

11.4 SNEN (Single Non-Emergency Number) / 101 Project

This is a national initiative, being implemented locally, to offer the number 101 as an alternative to 999. It is intended that 101 will be used to report less serious offences, principally anti-social behaviour, thereby freeing up the 999 to be used for genuine emergencies. This project is initially programmed to run to the end of March 2008 with the possibility of a further two year extension. It is being delivered in partnership with Leicestershire Constabulary, Leicestershire County Council, Rutland District Council, seven other districts within Leicestershire, with the city council as lead authority and accountable body. The project is 100% grant funded by the Home Office, which includes an allowance for the city councils administrative costs. The budget for the initial implementation was £1.2m, which has been spent and recouped. The operational budget is £3.1m, of which £1.6m has been spent and claimed, with the balance forecast to be spent during 2007/08.

11.5 Local Area Agreement (LAA)

In 2007/08 the City Council will receive £19m as part of the LAA. This is allocated across two principal themes: Children and Young People - £9.5m and Safer and Stronger Communities - £1.8m, plus an allocation of Neighbourhood Renewal Fund (NRF) money totalling £7.7m. The allocation of the grant is agreed through the Leicester Partnership, a group representing a wide range of stakeholders from across the city. As at the end of August, spend to date totals £4.8m or 25%, of which £1.4m relates to NRF projects. The forecast outturn is for full spend, and there has been a small amount of over-programming to ensure that this level of spend is achieved.

12. GROWTH & REDUCTIONS

- 12.1 At this early stage of the year, with the exception of those reported by the Adults and Housing Department at section 6.4, departments have not reported any significant variations in achieving the growth and reductions approved as part of their 2007/08 Departmental Revenue Strategies.

13. FINANCIAL INDICATORS

- 13.1 As part of the 2007/08 budget report, Cabinet and Council approved various financial indicators taken from the council's balance sheet and cashflow statements, these are to be monitored and reported as part of the regular cycle of budget monitoring reports.

13.2 The indicators are attached at Appendix B to this report and include the position as at 1st April 2007 together with a forecast for the year ended 31st March 2008.

14. FINANCIAL AND LEGAL IMPLICATIONS

Financial Implications

14.1 This report is solely concerned with financial issues.

Legal Implications

14.2 There are no direct legal implications in this report. Peter Nicholls, Service Director, Legal Services ext 29 6611

15. 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	-

16. DETAILS OF CONSULTATION

16.1 All departments are consulted on revenue budget monitoring.

Author: Lisa Turner
Date: 6/09/2007

MARK NOBLE
CHIEF FINANCE OFFICER

DECISION STATUS

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

GENERAL FUND REVENUE
BUDGET MONITORING PERIOD 4 2007/08

APPENDIX A

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 3	Forecast Outturn
	£000	£000	£000	£000	£000	£000
Chief Executive's Office	981.4	0.0	0.0	981.4	414.7	981.4
Children and Young People	52,876.9	0.0	0.0	52,876.9	14,809.0	53,099.9
Regeneration & Culture	60,030.1	39.6	0.0	60,069.7	21,615.2	60,069.7
Adults & Housing	73,625.8	353.5	0.0	73,979.3	22,992.7	75,812.5
Housing Benefit	507.3	0.0	0.0	507.3	169.1	507.3
Resources	27,044.3	0.0	(220.0)	26,824.3	13,724.5	28,390.9
Total Departments	215,065.8	393.1	(220.0)	215,238.9	73,725.2	218,861.7
Corporate Budgets						
Miscellaneous	8,758.7	0.0	(280.0)	8,478.7	(22.5)	
Capital Financing	19,266.1	0.0	0.0	19,266.1	n/a	
Total Corporate Budgets	28,024.8	0.0	(280.0)	27,744.8	(22.5)	
TOTAL GENERAL FUND	243,090.6	393.1	(500.0)	242,983.7	73,702.7	
Net Recharges	(3,024.6)	0.0	500.0	(2,524.6)		
TOTAL GENERAL FUND	240,066.0	393.1	0.0	240,459.1		

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
Period 4: 2007/08

<u>Financial Indicator</u>	Actual as at 1st April 2007 £'000	Forecast at 31st March 2008 £'000
<u>Balance Sheet Items</u>		
Reserves & Balances:		
Earmarked Revenue Reserves	49,365	39,216
Earmarked Capital Reserves	6,326	2,000
Housing Revenue Account	2,911	4,253
Debtors (excl. Bad Debts Provision)	70,586	72,266
Creditors	87,807	92,766
Long-Term Borrowing	327,570	255,599
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	6,217	(83,404)*

* This decrease is offset by a projected £62m reduction of investments.