



Leicester
City Council

Cabinet
Performance and Value for Money Select Committee

5th January 2009
15th January 2009

REVENUE BUDGET MONITORING 2008/09 – PERIOD 7

Report of the Chief Finance Officer

1. 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 second in the regular cycle of reports for the 2008/2009 financial year showing the budget issues that have arisen so far.
- 1.2 Further reports will be presented to Cabinet and the Performance and Value for Money Select Committee at Period 9 and Outturn.

2. SUMMARY

- 2.1 The General Fund budget set for the financial year 2008/2009 was £261m. Together with the sums carried forward by service departments from 2007/2008 of £0.2m, the revised budget is now £261.2m. After 7 months of the year, 59% of the revised budgets of departments have been spent.
- 2.2 It is apparent that all departments are experiencing budgetary pressures. In particular the Adults and Housing department, together with Resources, are facing significant pressures (and hence potential overspends) of £0.7m and £0.5m respectively. Both departments are taking appropriate action in order to address these pressures. It is essential that these action plans continue to be monitored throughout the remainder of the year in order to ensure a balanced outturn is achieved. More recently it has become apparent that there is also a significant budgetary pressure of up to £0.9m within the Regeneration and Culture Department.
- 2.3 The areas in which significant budgetary pressures exist are as follows:
 - Children and Young People's Services – Risks and uncertainties associated with major service initiatives.
 - Adults and Housing – The cost of social care continues to be a significant pressure due to a combination of price and demand increases.

- Regeneration and Culture – The department is facing a significant budgetary pressure relating to the new concessionary fares scheme. This has arisen following an appeal into the basis for calculating the reimbursement to bus companies. This is a recent development and the impact of this has not yet been fully assessed. More details on this issue are outlined in paragraph 6.3.2.
- Resources – The economic downturn has had a negative impact on land charges and property services budgets. In addition to this, the ability to deliver savings from the planned departmental review has been overtaken by delivering excellence programme, which together has resulted in significant budgetary pressures.

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, although recent dramatic reductions in interest rates mean that this may not be as healthy as previously envisaged. Offset against this is a forecast increase in energy costs of £1.7m as a result of the global price increases. This is outlined in more detail at paragraph. 7.3.
- 2.5 It is apparent from both this financial report, and also the second quarter performance report, that the economic downturn is having an adverse impact in a number of areas of the Council. The Council will be closely monitoring the local impact of any recession and wherever possible appropriate actions will be taken in order to support the local community during this difficult period.

3. RECOMMENDATIONS

3.1 Cabinet is recommended to:

- Note the changes made to the original approved budget for 2008/09;
- Note the expenditure to date and the budgetary issues which have emerged so far this year;
- Note the proposals put forward to ensure that spending is contained within the Departments' budgets;
- Note the progress made so far towards achieving the efficiency target;
- Request Council to increase the budget for costs of energy, as described in paragraph 3.3, and authorise the Chief Finance Officer to allocate this sum to departments in proportion to the impact of cost increases.

3.2 The Performance and Value for Money Select Committee is asked to consider the overall position presented within this report and make any observations it sees fit.

3.3 The **Council** is asked to approve an increase of £2.7m in departmental budgets for the cost of gas and electricity in 2008/09, £1m of which was included in the original budget, with a further £1.7m to be met from corporate underspends; and authorise Cabinet to allocate this sum to departments.

4. BUDGET FOR 2008/09

4.1 The General Fund budget for the financial year 2008/09 is **£261m**. After adding the approved carried forward amounts from 2007/08 (**£0.2m**) the budget for the year is now **£261.2m**.

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 2008/09	Approved Carry forwards	Virements	Revised Budget for 2008/09
<u>Department</u>	£'000	£'000	£'000	£'000
Chief Executive's Office	2,735.3	-	2,032.3	4,767.6
Children & Young People	56,286.3	-	1,223.3	57,509.6
Regeneration & Culture	58,456.6	8.6	(106.3)	58,358.9
Adults and Housing	83,962.0	156.6	(259.6)	83,859.0
Housing Benefits	527.6	-	-	527.6
Resources	26,501.3	-	1,272.7	27,774.0
Total Departments	228,469.1	165.2	4,162.4	232,769.7
<u>Corporate Budgets</u>				
Miscellaneous	15,056.4	-	(4,162.2)	10,894.2
Capital Financing	19,806.0	-	(0.2)	19,805.8
General Fund (excl. net recharges)	263,331.5	165.2	0.0	263,496.7
Net Recharges	(2,324.6)	-	-	(2,324.6)
TOTAL GENERAL FUND	261,006.9	165.2	0.0	261,172.1

5. SUMMARY OF PROJECTIONS

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

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 The Chief Executive's Office is presently forecasting a balanced outturn. Costs associated with the Delivering Excellence programme are contained within the Chief Executive's portfolio and this is dealt with in more detail at Section 8 of this report.

6.2 Children & Young People

6.2.1 General Fund

The department is currently forecasting net pressures totalling £0.5m on their general fund budgets to be met from departmental reserves. However, the department is facing a number of budgetary pressures which are a risk to this forecast. These include Transforming the Learning Environment (including BSF), Transforming Leicester's Learning (TLL), vacancies in Senior Management posts which are being covered by external staff, and the CYPS Traded Service Project. At this point in the year the department anticipates a significant call on its departmental reserve to meet some of the costs associated with these pressures. As cost implications become more robust these will be fully reported as part of the budget monitoring cycle.

Services funded by the Dedicated Schools Grant

6.2.2 These services are under pressure and significant variations in this area are outlined below. The forecast overspend of £0.4m in total will be met from contingencies (as agreed by the Schools Forum).

- a) Independent Schools – The number of pupils supported by this budget had increased significantly in prior years. The growth in pupil numbers has now slowed, and the budget pressure of £0.1m is lower than in 2007/08.
- b) Nursery Education Grant: Net pressures of £0.5m arise predominantly from the need to fund an additional two weeks of nursery provision following the early Easter holiday. The residual overspend is from improved take up of provision, and the consequent impact of both factors on the cost of increasing the grant rate to providers.

6.2.3 Further contingencies of £1.4m were included in the original budget. This has now almost entirely been allocated:-

- increasing the allocation for schools facing exceptional cost pressures in connection with TLL - £0.5m
- increasing the Personalised Learning allocation for special schools -£0.2m
- increasing the provision for centrally funded Special Education Needs (SEN) to continue funding SEN statemented support where the number of hours falls below 25 per week - up to £0.5m.

6.2.4 The total underspend (including the unallocated contingency referred to above) on DSG funded budgets is estimated to be £0.3m. Schools Forum can be consulted on proposals to allocate surplus DSG and this amount may therefore be allocated by the end of the year.

Transforming Leicester's Learning

6.2.5 The Transforming Leicester's Learning Action Plan (TLL) is a comprehensive strategy designed to address the issues of low attainment in schools and low aspirations, and to develop and support staff with significant professional opportunities to deliver high quality services to children and young people. The TLL is currently programmed to continue to July 2009. The total budget for 2008/09 including £0.5m of growth is £5.9m, with a further £1.7m in 2009/10. The funding for the TLL is from a number of sources including the revenue budget, grant income, and an earmarked reserve established for this purpose.

6.2.6 Work to review progress against the original plan has now been completed and budgets are being reprofiled. This progress is reported upon on a regular basis to the TLL Overview Board. As outlined in the quarter two performance report, early indications are that the redirection of resources towards this programme is making a difference in terms of improved performance in key areas. The STATS results for 2007/08 showed significant improvements.

6.2.7 Schools

Schools collectively have budgeted to withdraw from their balances, which stood at £19.3m as at 31st March 2008. The May budget forecasts collectively indicate a substantial reduction in balances. 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 energy costs and the potential impact of 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 The department is forecasting budgetary pressures of up to £0.9m. This forecast position arises as a result of an appeal against the Council in relation to the concessionary fares scheme, which is outlined in more detail below.

6.3.2 Concessionary fares scheme

The basis for calculating the concessionary fares reimbursement to bus companies has been subject to appeal with the Department of Transport for sometime. This has now been partially resolved, requiring the Council to adopt a revised methodology. Current indications are that this new basis of reimbursement will be an additional cost to the Council of up to £1.6m per annum (an increase of around 20%). The department had already set aside some budgetary provision in 2008/09 for this purpose. However the resulting position means that the department is facing pressures this year estimated to be between £0.3m and £0.9m. There is also an ongoing impact into next year and this will be taken into account during the current budget setting process for 2009/10 onwards.

6.3.3 Other budgetary pressures, which are in line with those previously reported, are outlined below. These pressures are being managed through the combination of one off income from a significant VAT rebate, the planning delivery grant and the deferral of discretionary expenditure wherever possible.

- The economic slow down is having an adverse impact on the level of building control income which is down by 18% compared with the budget.
- Planning fee income remains below budget with a significant drop in the number of planning applications as a result of the slow down in the property market. Income is forecast to be down by one third (£0.5m).
- It is too early to predict what the impact of the slow down on ticket sales at DeMontfort Hall will be. Most of the income is generated in the autumn and winter period and so the risk of an income shortfall remains high.
- A review of the Economic Regeneration team was budgeted to generate £0.4m of savings in 2008/09. However there has been a delay in starting the review and the savings will not be achieved this year. Compensating savings from vacant posts and running costs will be made to offset this shortfall.

6.3.4 There is an additional uncertainty within this forecast outturn relating to an unresolved issue in respect of the liability for landfill tax on certain waste streams.

6.3.5 Fleet Management, City Catering, Operational Transport and City Highways are forecasting to breakeven this year. Food cost inflation is increasing City catering's costs and this is being offset by the targeted school meals grant for 08/09.

6.4 Adults and Housing

6.4.1 The department is experiencing considerable volatility and as such is facing significant budgetary pressures. It is currently forecasting pressures of £0.7m on a net budget of £84m. The most significant issues are outlined in the paragraphs below. The Director is currently putting in place a number of actions in order to reduce expenditure in line with the budget.

6.4.2 In common with many Local Authorities across the country Leicester's social care budgets are under pressure due to a combination of substantial price increases affecting both in-house and external provider services and increases in demand. In particular there has been a significant increase in demand for home care.

6.4.3 The main financial pressure falling on the former Housing Department has resulted from a reduction in funding from the Supporting People Grant. This has had a particular impact on the Tenancy Sustainment Service.

6.4.4 There are several significant risks associated with the above forecast. Also final agreement has yet to be reached with the Primary Care Trust regarding their contribution to the Learning Disabilities Pool for 2008/09.

Housing Benefit Payments

6.4.5 The cost of housing benefit payments (£115m) is almost entirely met by government grant. The current forecast indicates a favourable variance, although there are a number of risks and uncertainties that can affect this volatile budget including:

- Possible grant claw back by the DWP arising from the finalising of the 2006/07 grant claim (although a provision has already been made which should be sufficient to meet any claw back);
- Issues and variations relating to the 2007/08 grant claim which is presently subject to audit; and
- Overpayments/overpayment recoveries, to the extent that these exceed budget.

6.4.6 The 2005/06 claim has recently been settled. This has resulted in a favourable variance of £0.6m, which in accordance with finance procedure rules, will be transferred back to the general reserve.

Housing Revenue Account

6.4.7 The HRA has a planned deficit of £0.2m and is forecasting an outturn close to budget. HRA balances are therefore forecast to be in line with the original budget.

6.4.8 There are a number of variances within this position including: an increased revenue contribution to the capital programme and also dwelling rents are expected to exceed the budget by £0.5m, this is mainly because the number of RTB sales is lower than expected due to the economic slow down.

6.5 Resources

6.5.1 The department faces substantial pressures, chiefly arising from:-

- a) Expected savings of £0.6m in the 2008/09 budget to be achieved by means of a restructure, which cannot now progress as it conflicts with Delivering Excellence.
- b) A shortfall of £0.3m in income from land charges arising from the economic downturn.

6.5.2 The Departmental Management Team (DMT) is working hard to balance the budget for this year, and each division is being expected to find savings. However, this is complicated by the fact that the department is supporting key corporate initiatives and the fact that savings could compound a known problem of organisational capacity.

6.5.3 After taking account of the use of reserves and the savings forecast by each division, the department is currently showing a maximum forecast overspend of £0.5m.

- 6.5.4 The DMT has stopped all non-essential expenditure, and has agreed that any recruitment must only proceed after the relevant Service Director has confirmed the need to progress the recruitment. The team is also considering what further actions need to be taken in order to ensure a balanced outturn is achieved.

7. CORPORATE BUDGETS

- 7.1 This budget (£30m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£19.8m) is by far the largest element of the budget but it also includes bank charges, audit fees, levies, contributions towards job evaluation and service transformation, together with other miscellaneous expenditure.
- 7.2 Significant savings in excess of £3m are anticipated in capital financing costs. The main reason for this is the continued growth in the underlying level of cash held by the authority – this has been a trend every year and has continued this year, notwithstanding a sizable uplift in the budget assumption.
- 7.3 Offset against this saving is an estimated increase in energy costs. The budget, set in February, assumed an increase in the costs of £1m, however global price increases have exceeded expectations resulting in additional costs estimated to be £2.7m. The full Council is asked to approve the extra funding needed to meet this funding gap (£1.7m) from the Corporate Budget underspend outlined above (Recommendation 3.3).

8. DELIVERING EXCELLENCE – SERVICE TRANSFORMATION

- 8.1 The Council's Delivering Excellence programme has significant financial implications, both continuing and short-term. It is expected that Delivering Excellence will identify areas where the Council is short of capacity, or where new expenditure can deliver goals. It is also expected that the programme will improve our efficiency.
- 8.2 The budget for 2008/09 included a provision of £2m for service transformation of which £1.3m has been committed. Cabinet on the 1st October approved a further £1m in 2008/09, for work to be undertaken to consolidate structures and to progress the DE programme. Actual expenditure and commitments will continue to be monitored closely as the project progresses.

9. JOB EVALUATION & EQUAL PAY COMPENSATION

- 9.1 Cabinet, at its meeting on the 1st October 2008 agreed that the proposed Single Status Framework agreement would not be taken forward for implementation. It was also agreed that the project would be re-constituted with the objective of re-designing and implementing a new framework agreement. For the time being monies that had been earmarked to meet the one off costs of the scheme will continue to be set aside. These sums (estimated at £3.8m) will be taken into account when a new project and resource plan is prepared. Further sums which had been intended to be spent on retrospective implementation (to July 2007) will continue to be set aside for this purpose.

- 9.2 Equal Pay Compensation – Cabinet has given authority for settlements of up to £12m to be made. To date payments totalling £11.6m have been paid, with the majority of this sum (£11.3m) having been made during 2007/08. There are a small number of issues and queries regarding entitlement that are still in the course of being resolved. There also remains a risk associated with a relatively small number of cases that are being pursued through tribunals, although these cases could be disproportionately expensive.

10. PAY AWARD

- 10.1 The employers and unions have agreed to refer the 2008/09 pay negotiations to arbitration and it is expected that this process may take some time. In the meantime the employers have agreed to pay their last offer (2.45%) on account pending the outcome of the arbitration process.
- 10.2 The budget for 2008/09 provides for pay inflation of 2.75%. For every 0.1% the final settlement is lower than the budget, a saving of £0.2m will be realised.

11. AREA BASED GRANT

- 11.1 The Area Based Grant (ABG) is being used to support achievement of service outcomes in the local area agreement, which has been negotiated between Leicester Partnership and the Government. In 2008/09 the City Council will receive £26.5m which is allocated across four principal themes: Children and Young People - £11m, Safer and Stronger Communities - £1.2m, Health and Wellbeing - £5.8m, and Economic and Environmental – £7.1m plus a cross cutting allocation of £0.2m. On 1st December 2008, the Leicester Partnership agreed to commit £1.3m for the costs of administration and support on an interim basis in 2008/09.
- 11.2 Expenditure in relation to the Area Based Grant is proceeding satisfactorily, with £9.9m or 40% spent to date. All but two of the delivery groups are forecasting full spend against their allocation. The safer Leicester Partnership and Economic delivery groups are indicating a planned underspend in 2008/09, while some projects that span several years get off the ground. The groups plan to spend all of its 3 year allocation, but under a different annual profile. They will therefore be seeking to earmark this in-year underspend to be carried forward to next financial year.

12. EFFICIENCY SAVINGS

- 12.1 From April 2008 all Councils are required to report the value of cash-releasing value for money gains that they have achieved as one of the 198 indicators in the new national indicator set. There is an expectation that local government should achieve at least 3% per annum cash releasing value for money gains over the spending review period 2008/09 to 2010/11 (CSR 07).

12.2 Although the expectation to deliver 3% cashable savings each year is a national target, as part of Leicester's local area agreement, a local efficiency target has been negotiated with government as one of the targets within the LAA. Leicester City's estimated share of the target is detailed below, together with the forecast savings for 2008/09. The forecast saving includes a significant carry forward from 2007/08.

Year	2008/09	2009/10	2010/11
Target (% of 2007/08 baseline)	3%	6%	9.4%
Leicester's cumulative expected gains (£m)	10.326	20.910	31.759
Leicester's forecast savings (£m)	11.043		

12.3 The Council's arrangements to deliver these expected gains are as follows:

- Each departmental revenue budget strategy contains an efficiency plan;
- A key objective of Delivering Excellence is to develop the Council's strategy for delivering efficiency savings;
- DE needs to deliver the required savings from 2009/10 onwards (whether or not these are included in the 09/10 budget); and
- Savings carried forward from 2007/08 count towards the 2008/09 target – 08/09 is being regarded as a transition year.

13. INVOICE PAYMENTS

13.1 The Council monitors its performance in relation to the payment of invoices. Whilst for 2008/09 no formal target has been set, an informal **target to pay 94%** of all undisputed invoices on time is in place (the 2007/08 target of 93% was achieved). 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 October was 93.2%, and **the cumulative position for the 7 months to date 93.9%**. The performance of each department is shown in the table found at Appendix B.

14. FINANCIAL INDICATORS

14.1 As part of the 2008/09 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.

14.2 The indicators are attached at Appendix C to this report and include the position as at 1st April 2008 together with a forecast for the year ended 31st March 2009.

15. FINANCIAL AND LEGAL IMPLICATIONS

Financial Implications

15.1 This report is solely concerned with financial issues.

Legal Implications

15.2 There are no direct legal implications arising from this report. Peter Nicholls, Service Director – Legal Services, has been consulted on the preparation of this report (1/12/08)

16. 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	-

17. DETAILS OF CONSULTATION

17.1 All departments are consulted on revenue budget monitoring.

Author: Lisa Turner

Date: 25/11/2008

MARK NOBLE
CHIEF FINANCE OFFICER

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

APPENDIX A

GENERAL FUND REVENUE BUDGET BUDGET MONITORING SUMMARY 2008/09 - PERIOD 7

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 7	Forecast Outturn to Period 07	Forecast Variance over (under) spend - before action is taken	Forecast Variance	% Spend Period 07 2008/09
	£000	£000	£000	£000	£000	£000	£000	%	%
Chief Executive's Office	2,735.3	0.0	2,032.3	4,767.6	2,596.0	4,767.6	0.0	0.0%	54.5%
Children and Young People	56,286.3	0.0	1,223.3	57,509.6	34,455.7	57,509.6	0.0	0.0%	59.9%
Regeneration & Culture	58,456.6	8.6	(106.3)	58,358.9	34,682.6	59,233.9	875.0	1.5%	59.4%
Adults & Housing	83,962.0	156.6	(259.6)	83,859.0	48,495.9	84,561.8	702.8	1.0%	57.8%
Housing Benefit	527.6	0.0	0.0	527.6	307.8	527.6	0.0	0.0%	58.3%
Resources	26,501.3	0.0	1,272.7	27,774.0	17,308.8	28,332.7	558.7	3.7%	62.3%
Total Departments	228,469.1	165.2	4,162.4	232,796.7	137,846.8	234,933.2	2,136.5	0.9%	59.2%
Corporate Budgets									
Miscellaneous	15,056.4	0.0	(4,162.2)	10,894.2					
Capital Financing	19,806.0	0.0	(0.2)	19,805.8					
Total Corporate Budgets	34,862.4	0.0	(4,162.4)	30,700.0					
TOTAL GENERAL FUND	263,331.5	165.2	0.0	263,496.7					
Net Recharges	(2,324.6)	0.0	0.0	(2,324.6)					
TOTAL GENERAL FUND	261,006.9	165.2	0.0	261,172.1					

APPENDIX B**INVOICE PAYMENT STATISTICS
APRIL 2008 TO OCTOBER 2008 (7 MONTHS)**

	INVOICES PAID "ON TIME"	
	October %	Year to Date %
ADULTS & HOUSING	91.8	92.5
CHILDREN & YOUNG PEOPLE	92.4	93.2
REGENERATION & CULTURE	94.7	95.7
RESOURCES	93.3	94.2
TOTAL	93.2	93.9

2008/09 TARGET: 94%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
Period 7: 2008/09

<u>Financial Indicator</u>	Actual as at 1st April 2008 £'000	Forecast at 31st March 2009 £'000
<u>Balance Sheet Items</u>		
Reserves & Balances:		
Earmarked Revenue Reserves	58,138	66,552
Earmarked Capital Reserves	5,576	5,000
Housing Revenue Account	4,574	4,618
Debtors (excl. Bad Debts Provision)	86,861	91,922
Creditors	(90,280)	(93,569)
Long-Term Borrowing	285,090	283,990
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	(48,752)	(18,001)