

Leicester
City Council

WARDS AFFECTED
All wards

CABINET
ALL SCRUTINY COMMITTEES

11 FEBRUARY 2002

REVENUE BUDGET MONITORING 2001/2002

Report of the CHIEF FINANCIAL OFFICER

1. Purpose of Report

- 1.1** The purpose of this report is to summarise the Authority's revenue budget monitoring position.
- 1.2** The attached supporting information shows the summary position comparing spending with the budget for all General Fund Services and the Housing Revenue Account (HRA). The report is the second of the 2001/2002 financial year showing the General Fund position against the revised budget of £303m, and the HRA position against a gross budget of £70m and is based on the first eight months' spending.

The Council's processes provide for reports on the budget to be prepared twice during the year. The first such occasion was in November, and was reported to both Cabinet and Scrutiny Committees in the November cycle. This is the second occasion and includes a detailed projection of the likely final outturn position.

A number of significant issues and trends were identified in the last report. A more precise position is now available and areas of concern are considered in the supporting papers.

- 1.3** This composite report is also being presented to the Cabinet on the 11 February.

2. Summary

- 2.1** The net general fund budget (which pays for all services other than Council Housing) is £303m. After 8 months of the year, 68% of the revised budgets of Departments have been spent. A number of departments are still facing budget pressures and this has resulted in a current overspend forecast of £2.4m. Departments are taking action to avoid overspending and the details are included in the appendix to this report. In addition, an overspend of £0.2m is predicted on corporate budgets as a result of the recent fall in interest rates.
- 2.2** The position for the HRA is that there is a forecast year-end surplus of £0.7m,

compared to a budgeted surplus of £0.1m. This will increase HRA balances to £3.2m.

3. Recommendations

3.1 Recommendations being made to Cabinet are as follows:

- 1)** Note the spend to date and the budgetary issues which have emerged so far this year
- 2)** Note the action proposed, as set out in the appendices to this report, to ensure that spending is contained within the Departments' budgets
- 3)** Approve one-off additional funding from corporate reserves of £0.5m, to assist the Social Services Department (£0.35m) and the Education Department (£0.15m) with the additional costs incurred as a result of an influx of EU nationals
- 4)** Consider the recommendations of the Social Services and Personal Health Scrutiny Committee (minute appended).

3.2 Scrutiny committees will be asked to consider issues affecting their portfolio and make any observations to the cabinet as they see fit.

3.3 The Finance, Resources and Equal Opportunities Scrutiny committee will be asked to consider the overall position for the whole Council and make any observations it sees fit, although these will not be considered by Cabinet in the current cycle of meetings.

4. Financial and legal Implications

4.1 This report is concerned solely with financial issues.

5. Other Implications

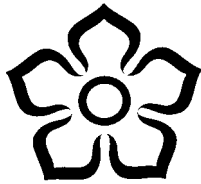
| Other implications | Yes/No | Paragraph referred |
|------------------------------|---------------|---------------------------|
| Equal Opportunities | No | - |
| Sustainable & Environmental | No | - |
| Crime & Disorder | No | - |
| Human Rights Act | No | - |
| Elderly/People on low income | No | - |

6. Report Author

Alison Greenhill
Principal Accountant

Date: 11 January 2002

MARK NOBLE
CHIEF FINANCIAL OFFICER



Leicester
City Council

**CABINET
FINANCE, RESOURCES AND EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE**

11 FEBRUARY 2002

28 FEBRUARY 2002

REVENUE BUDGET MONITORING – PERIOD 8, 2001/2002

SUPPORTING INFORMATION

1. INTRODUCTION

The purpose of this report is to provide a summary position comparing spending with the budget for all General Fund services, trading services and the Housing Revenue Account.

The information in this report is also being presented to individual Scrutiny Committees in detail.

The report is the second of the 2001/2002 financial year showing the overall position against the budget, and a projected outturn and is based on the first eight months' spending.

2. SUMMARY OF THE REPORT

After 8 months of the year, 68% of the revised budgets of departments have been spent.

The previous report identified that the budget is tight. In particular the Social Services department faces significant pressure (a national trend) and also pressure on both Social Services and Education budgets has arisen as a result of an influx of EU nationals. All departments have continued to take action in order to avoid any overspend, however current forecasts indicate an overspend in the region of £2.4m (without such action).

Furthermore, an overspend of £0.2m is predicted on corporate budgets as a result of the recent fall in base interest rates.

The HRA is predicting an improved position over that budgeted, which will result in closing HRA balances, of £3.2m.

3. BUDGET FOR 2001/2002

The revised General Fund budget for the financial year 2001/2002 is £302.8m. The Housing Revenue Account budget for the financial year 2001/2002 is a net surplus budget of £51,000.

4. FINANCIAL IMPLICATIONS AND KEY ISSUES

This report is solely concerned with financial issues.

5. DEPARTMENTS / CORPORATE REVISED BUDGET

The following table details the revised General Fund budget for the Authority.

| | Original Budget for 2001/2002 | Approved Carry- Forwards | Virements | Revised Budget for 2001/2002 |
|---|--|---|------------------|---|
| Department | £000 | £000 | £000 | £000 |
| Arts & Leisure | 23,836.6 | (60.4) | (5,506.5) | 18,269.7 |
| Chief Executives | 2,717.0 | 425.0 | (111.6) | 3,030.4 |
| Commercial | (648.7) | 0.0 | 427.0 | (221.7) |
| Education | 141,725.3 | 409.2 | 5,648.3 | 147,782.8 |
| Env & Dev | 31,394.7 | 239.1 | 6.7 | 31,640.5 |
| Housing | 8,585.0 | 0.0 | 114.2 | 8,699.2 |
| Social Services | 62,845.2 | (313.3) | 165.6 | 62,697.5 |
| T.Clerks & C.Res | 18,178.0 | 199.6 | (55.3) | 18,322.3 |
| Total Departments | 288,633.1 | 899.2 | 688.4 | 290,220.7 |
| Corporate Budgets | | | | |
| Levies | 6,846.0 | 0.0 | 0.0 | 6,846.0 |
| Miscellaneous | 1,447.0 | 0.0 | (96.7) | 1,350.3 |
| Capital Financing | 7,463.0 | 0.0 | 0.0 | 7,463.0 |
| Gen Fund (Exc Net Recharges) | 304,389.1 | 899.2 | 591.7 | 305,880.0 |
| Net Recharges | (2,496.1) | 0.0 | (591.7) | (3,087.8) |
| Net General Fund | 301,893.0 | 899.2 | 0.0 | 302,792.2 |

6. SUMMARY OF THE CURRENT POSITION

A number of departments have faced significant pressures so far this year. Whilst management action has been taken in a number of areas the position of a number of service departments still requires close monitoring over the remaining weeks in the financial year.

7. SIGNIFICANT ISSUES ARISING FROM SERVICE DEPARTMENTS

The budgetary issues which have emerged during the year, are as follows:

Chief Executive's Office

The department currently anticipates an underspend of approximately £50k which is mainly made up of small savings across the department.

Town Clerks & Corporate Resources

The department continues to forecast expenditure within budget although there are a number of areas with potential budgetary pressures including:

- The Coroners Service where the costs of pathology testing are effectively non-controllable as they are dependent upon wholly external factors,
- The Centrally Located Admin Buildings where energy costs will be determined by weather conditions, and other costs dependent on factors outside the departments control,
- Weekly Benefit Savings penalties are likely to be incurred. The position is made worse as a result of computer problems and government changes in Housing Benefits,
- Payroll where a review of the service is on going and additional temporary staffing costs are being incurred.

Arts & Leisure

The forecast outturn for the Arts & Leisure department shows an overspend of £155k. The director is applying appropriate measures required to contain the overspend, including restricting non-essential expenditure. The main causes of the overspend are:

- £130k overspend within Cemeteries & Crematoria due to substantial under-achievement of income targets;
- £65k overspend within Libraries due to unforeseen NNDR Revaluation costs;

There is an underspend of £50k due to the current level of vacancies pending implementation of an organisational review.

Commercial Services

The department budgets to provide a single target contribution to the General Fund of £221k. Current forecasts indicate that the surplus achieved will be £53k.

Most trading services within the department are predicting to break-even or make a small surplus. Construction Services are projecting a surplus of £87k and City Cleansing is also projecting a surplus of £82k. Due to continuing difficult trading conditions, Creativity Works is forecasting a loss of £126k, however a business retrieval plan has been formulated, which plans to increase efficiency and actively search for achievable

additional income. Building Cleaning is also forecasting a loss of £195k which arises from a keenly priced contract and a reduction in the volume of service required. Plans have been developed to reorganise working practices.

The management team are looking at ways of minimising any losses but as a last resort, the department will have to fund any shortfall from their departmental earmarked reserve.

Education

The department is predicting an overspend of £648k.

The overspend relates to areas which are needs-led, have arisen due to statutory obligations, or from additional Somali pupil support. The main causes of the overspend are:

- Staffing issues across the department (£170k) arising from national pay awards agreed after the budget was set, additional staffing to meet the statutory requirements of the Behaviour Support Plan and increased school-based maternity costs. These are partially offset by savings arising from vacant posts.
- The needs-led SEN budget - additional pupils requiring SEN provision, an increase in the need for high level support for mainstream statementing and a reduction in the number of County children placed in City special needs schools all contribute to an overspend of £175k. This is partially offset by a reduction in the number of children requiring SEN transport, resulting in a predicted underspend of £71k.
- 4 year old grant overspend of £90k due to a higher than anticipated take up of places
- Persons from abroad £590k - the sum expended on behalf of Somali pupils is in the order of £590k – additional pupils in schools (£470k estimate) and extra support for schools and the community (£120k).
- Public liability insurance increased in-year premiums £50k

The Education Department will draw on the LMS Contingency (£492k) to fund the majority of the projected overspend in 2001/02. This had been earmarked to enable support to be given to secondary schools affected by the secondary review. This support will not now be possible, and will be a major concern to schools. If Cabinet approves the recommendations regarding Persons from Abroad, this will provide the balance of funding and the Department will avoid an overspend.

Environment & Development

The department is forecasting to underspend by approximately £117k. The main budgetary issues affecting the department are:

- a forecast overspend of £350k on waste, largely as a result of increased level and cost of waste disposal and recycling;
- Energy Management is forecasting an under-recovery of income of £70k
- under-achievement of advertising income of £158k due to a delay in setting up the contracts with the advertising company;

Compensating favourable variances are:

- £150k additional income anticipated from planning applications;
- £94k additional licensing income;
- savings of £303k due to a number of vacancies in the department;
- various small savings across the department £30k

Housing

The department is forecasting an underspend of £450k. The major elements of this are:

- £450k forecast underspend on Housing Benefit Payments, which is a demand-led budget. Financial Procedure Rules mean that the department will not be allowed to retain the underspend on this service and the budget will be correspondingly adjusted at the year end;
- A forecast £229k overspend in Housing Benefits Administration due to the higher than expected costs of implementing the Verification Framework and delays in the implementation of a new computer system,
- A £258k underspend in the Hostels, Homelessness and Rehousing division is forecast due to increased income from high occupancy levels and difficulties in recruitment.

The **Housing Trading Account** budgeted for a surplus of £200k. The current forecast indicates a surplus of £100k will be achieved. The reason for the reduction in profit is mainly the result of difficulties being experienced by the DSO in retaining and recruiting to its' workforce.

Social Services

An in-year overspend of up to £1.2m (1.5% of gross controllable expenditure) is possible, based on current activity levels and financial forecasts, adjusted to reflect a number of further steps to minimise expenditure, such as:

- Strategic use of slippage on external grant income
- Reclaiming of costs incurred from agreed NRF funding
- Placing a moratorium on all non-essential expenditure
- A drive to identify further external income
- Recruitment to only essential frontline vacancies
- Co-ordination of advertising to secure best value
- A review of powers delegated below Assistant Director level
- Very close monitoring of the total number and nature of community care placements

Although, through the above and other steps, the Department is striving to come in at a position that is not a substantial worsening of the situation at the end of 2000/01, two particular factors amounting to £0.8m (over and above the £1.2m in-year potential overspend) are very difficult to deal with this year:

- The £0.4m overspend brought forward from 2000/01
- Up to £0.4m spend on Persons from Abroad

This level of potential overspend has to be understood in the context of similar budget pressures facing social services departments nationally, and in particular the accepted instability in the Department's budget. This includes the £2m of historic unfunded commitments identified fully for the first time in the 2001/02 Departmental Revenue

Strategy (DRS), and the on-going pressures on the community care budget.

The pressure points remain the purchasing budgets for community care and looked after children, legal services and transport, offset to some extent by vacancies. The number of older persons placements has levelled off whilst discharges from hospital have been maintained, an imperative set by Government. However, the Department is required to meet an increasing demand for adult learning disabilities placements, a trend that is set to continue in line with demographic changes. These are particularly expensive as they could last a lifetime, in contrast to placements of older people towards the end of their lives.

In addition to managing the budget, the Department must have regard to its statutory responsibilities, its duty of care to citizens, and the need to comply with specific grant conditions. The latter is of particular relevance to the £0.45m Cash for Change grant, which would be revoked should hospital beds become blocked by delayed discharges into the community. Such a move could also attract the attention of the Department of Health, which would not be in the Council's interests.

8. CORPORATE BUDGETS

An overspend of £0.2m is predicted on corporate budgets as a result of the recent fall in base interest rates below levels forecast when the budget was set.

9. HOUSING REVENUE ACCOUNT

The original budget for the HRA indicated £51k surplus for the end of this year. The current indications show a year-end forecast surplus of £0.7m.

Although this excludes the expenditure and subsidy relating to the new Major Repairs Allowance (MRA) which is being reported as part of the capital monitoring process, it does include additional credit interest of £100k due to the cash-flow effect of the MRA element of subsidy.

There is a predicted saving of £500k on repairs and maintenance due to lower day-to-day repairs requirements reflecting the capital investment in the housing stock. However an additional contribution of £150k to the bad debt provision is expected due to the large growth in rent arrears arising from the backlog of Housing Benefit cases.

Forecast year-end HRA balances are now £3.2m, and this figure has been incorporated in the 2002/03 HRA budget process. There is also likely to be a further increase of £1m as a consequence of finalising the housing subsidy claim for 2000/01.

10. SCHOOLS BUDGET MONITORING

All schools provide an outturn forecast in the Autumn and Spring term of each financial year. The forecast outturn for period 5 provided by schools shows that 75% of schools are projecting to overspend and 25% are projecting to underspend or break-even. The net position shows a forecast overspend of £3.2m. Overspend projections will be met from existing schools reserves which currently have a balance of £6.3m. However, it should be noted that schools have, in previous years, significantly overestimated their spending forecasts.

11. RESERVES

If the recommendations in this report are accepted, forecast year-end uncommitted reserves will be £5.4m, which is slightly in excess of the recommended minimum working balance.

At the beginning of the financial year, departments held specific earmarked reserves totalling £4m. Current projections indicate a year end balance of £3.7m.

Other significant specific earmarked reserves' forecast year-end balances are the Central Maintenance Fund £0.28m, Insurance Fund £4.0m, and the Payback Fund £0.16m.

12. NET RECHARGES

This is currently projected to be in line with budget.

13. EQUAL OPPORTUNITIES IMPLICATIONS

None arising as a result of this report.

14. DETAILS OF CONSULTATION

All the departments are consulted on revenue budget monitoring.

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Appendix 1

General Fund Revenue Budget Monitoring Period 8 2001/2002

| | Revised Budget for Year | Actual Expenditure to Period 8 | Forecast Outturn | Forecast Variance | Forecast Variance | % Spend |
|--------------------------------|----------------------------|-----------------------------------|------------------|-------------------|----------------------|--------------|
| | £000 | £000 | £000 | £000 | % | |
| Department | | | | | | |
| Arts & Leisure | 18,269.7 | 12,482.4 | 18,424.7 | 155.0 | 0.8% | 68.3% |
| Chief Execs Office | 3,030.4 | 2,113.7 | 2,976.7 | (53.7) | (1.8)% | 69.7% |
| Commercial Services | (221.7) | n/a | (52.6) | 169.1 | (76.3)% | n/a |
| Education | 147,782.8 | 101,300.3 | 148,431.2 | 648.4 | 0.4% | 68.5% |
| Environment & Development | 31,640.5 | 17,739.0 | 31,523.0 | (117.5) | (0.4)% | 56.1% |
| Housing | 8,699.2 | 6,435.0 | 8,250.0 | (449.2) | (5.2)% | 74.0% |
| Social Services | 62,697.5 | 44,962.8 | 64,770.0 | 2,072.5 | 3.3% | 71.7% |
| TC & C.Resources | 18,322.3 | 13,102.4 | 18,322.3 | 0.0 | 0.0% | 71.5% |
| Total Departments | 290,220.7 | 198,135.6 | 292,645.3 | 2,424.6 | 0.8% | 68.3% |
| Corporate Budgets | | | | | | |
| Levies | 6,846.0 | 4,108.9 | 6,836.0 | (10.0) | (0.1)% | |
| Miscellaneous | 1,350.3 | 1,241.5 | 1,352.0 | 1.7 | 0.1% | |
| Capital Financing | 7,463.0 | n/a | 7,639.0 | 176.0 | 2.4% | |
| Total Corporate Budgets | 15,659.3 | 5,350.4 | 15,827.0 | 167.7 | 1.1% | |
| TOTAL GENERAL FUND | 305,880.0 | 203,486.0 | 308,472.3 | 2,592.3 | 0.8% | |