

Leicester
City Council

**CABINET
ALL SCRUTINY COMMITTEE MEETINGS**

**10th FEBRUARY 2003
various**

REVENUE BUDGET MONITORING 2002/2003 – PERIOD 8

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 of the cycle of reports for the 2002/2003 financial year showing budget issues, which have surfaced so far.
- 1.2 Each Scrutiny Committee will receive only this covering report and the appendix (or appendices), which relate to its portfolio. The Finance, Resources and Equal Opportunities scrutiny committee will receive the appendices which 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 Finance, Resources and Equal Opportunities 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 (which pays for all services other than Council Housing) set for the financial year 2002/2003 was £312.4m. Together with the sums carried forward from 2001/2002, (net deficit of £0.6m as reported to Cabinet on July 2002) the revised budget is now £311.8m. After 8 months of the year, 70% of the revised budgets of departments have been spent.
- 2.2 In respect of the general fund:-
 - a) a number of departments are facing significant pressures and are taking action to avoid overspending. The most significant pressures have arisen in Social Care and Health, where it now appears unlikely that an overspending will be avoided (although action to minimise this is being taken);
 - b) savings in respect of the capital financing budget will result in a likely increase in the Council's general reserves
- 2.3 The position for the HRA is that there is a forecast year-end surplus of £0.4m,

compared to a budgeted deficit of £0.4m. This will increase HRA balances to £3.1m.

2.4 The presentation of the budget monitoring report is largely based on the old departmental structures, as per the budget book. Those transfers of services that are now complete and for which budgetary transfers have been finalised are included within the relevant receiving department.

2.5 In accordance with Finance Procedure Rules, some virements of budgets between services are submitted to cabinet for approval.

3. RECOMMENDATIONS TO CABINET

3.1 The Cabinet is recommended to:

(1) Note the spend to date and the forecast outturn;

(2) Note the action proposed as set out in the appendix to this report, to ensure that spending is contained within the departments' budgets;

(3) Approve the budget virements detailed in the attached appendices.

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 Finance, Resources and Equal Opportunities Scrutiny Committee is asked to consider the overall position for the whole Council and make any observations it sees fit.

4. FINANCIAL AND LEGAL IMPLICATIONS

4.1 This report is concerned solely with financial issues.

5. OTHER IMPLICATIONS

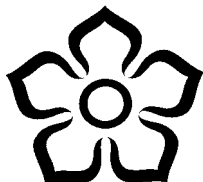
Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

Author: Devanshi Mavani/Alison Greenhill – Ext 7421
Principal Accountant
Date: 31 December 2002

MARK NOBLE
CHIEF FINANCE OFFICER

DECISION STATUS

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



Leicester
City Council

CABINET

10TH FEBRUARY 2003

**FINANCE, RESOURCES & EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE**

19TH FEBRUARY 2003

REVENUE BUDGET MONITORING 2002/2003 – PERIOD 8

SUPPORTING INFORMATION

REPORT OF THE CHIEF FINANCE OFFICER

1. INTRODUCTION

This report provides a summary of all General fund expenditure at the end of period 8 for the financial year 2002/2003 and highlights the main budgetary issues, which have arisen during the year. The report also includes a summary position on the Housing Revenue Account and the Neighbourhood Renewal Fund.

During the year, there have been a number of changes to departmental structures following the Revitalising Neighbourhoods initiative. These are included in the departmental summaries in paragraph 8, and the corresponding budget transfers formally agreed by Directors are shown in the virements highlighted in paragraph 4. Where budget transfers remain outstanding, the service in question is reported under the previous department.

2. SUMMARY OF THE REPORT

The 2002/03 position is proving very difficult to manage, with most departments experiencing significant pressures. The expected outturn for the end of the year is that:

- (a) Social Services department is expected to overspend. The pressures in this department exceed all others, and are replicated in a large number of other authorities. The director is taking action which is intended to produce a final overspend below the current forecast of £1.7m (further NRF may also become

- available),
- (b) Other departments under the most pressure are Education, Resources and Housing. In each case the director's view is that action being taken will achieve a balanced budget,

Significant savings estimated at £1m are forecast for corporate budgets. The key reason is the budget for capital financing, which is saving money due to:

- beneficial debt rescheduling,
- good performance by our fund managers,
- higher than envisaged interest on cash balances.

3. BUDGET FOR 2002/2003

The net General Fund budget for the financial year 2002/03 is £312.4m. Together with the carry forwards from 2001/02 (net deficit of £0.6m), the revised budget against which expenditure is being monitored is £311.8m.

The Revitalising Neighbourhoods project has generated a considerable number of service changes with financial implications for a number of departments. Budget transfers between departments follow a formalised procedure and are only reflected in departmental budgets after written agreement between the respective directors.

Financial Procedure Rules state that departments must not overspend their budgets. Accountability for ensuring a department does not overspend rests with the corporate director responsible for the departmental budget as it stands at the end of 2002/03.

The departmental summaries in Paragraph 8 show the current position in respect of transfers agreed and processed by departments. The corresponding budget transfers are shown below together with all other budget virements greater than £100,000 for Cabinet endorsement: -

- (a) £1,870,700 net income budget was vired to Resources from the Environment department as part of the transfer of Property Services,
- (b) £205,000 was transferred to Cultural Services from Education for the Records Office transfer,
- (c) £108,200 was transferred from Social Care & Health to Environment Regeneration & Development, reflecting a change in responsibilities for various voluntary projects including Mosaic and Age Concern,
- (d) £108,200 was vired from Environment to Education for the transfer of Voluntary Action Leicester.

4. DEPARTMENTS / CORPORATE REVISED BUDGET

The table below details the revised net direct budget for the Authority.

	Original Budget for 2002/2003	Approved Carry- Forwards	Virements	Revised Budget for 2002/2003
<u>Department</u>	£000	£000	£000	£000
Cultural Services	18,267.4	9.6	(3,843.8)	14,433.2
Chief Executives	2,594.6	89.2	(71.0)	2,612.8
Commercial Servs	(211.8)	0.0	0.0	(211.8)
Education & LLL	150,970.2	0.0	4,055.5	155,025.7
Environment R&D	32,482.2	422.1	1,876.7	34,781.0
Housing	8,080.5	93.8	36.2	8,210.5
Social Care & Health	64,925.7	(1,407.4)	(164.4)	63,353.9
Resources A&D	18,295.5	227.5	(1,870.7)	16,652.3
Total Departments	295,404.3	(565.2)	18.5	294,857.6
<u>Corporate Budgets</u>				
Levies	7,230.9	0.0	0.0	7,230.9
Miscellaneous	2,638.3	0.0	0.0	2,638.3
Capital Financing	10,259.0	0.0	0.0	10,259.0
Gen Fund (Exc Net Recharges)	315,532.5	(565.2)	18.5	314,985.8
Net Recharges	(3,127.5)	0.0	(18.5)	(3,146.0)
Net General Fund	312,405.0	(565.2)	(0.0)	311,839.8

5. SUMMARY OF PROJECTIONS

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 during the year, are as follows:

6.1 Cultural Services & Neighbourhood Renewal Department

The department has identified potential overspends in several areas. However directorate is still working to achieve a balanced budget by ensuring tighter management of vacancies within the department, the pooling of budgets, and restrictions on non-essential expenditure.

The main budget issues are:

- Cost of storm damage to trees (£75k)
- Expenditure on One Big Sunday, Music Live & Baton Rally (total £70k)
- Slow down on sales for the De Montfort Hall (£30k)

During the year the Libraries & Information Services Division has been transferred to the Education department and the majority of the budget transfer has been agreed and processed. The Libraries Division is included within the Education section of this report.

6.2 Chief Executive's Office

The department is presently forecasting an underspend of £10k. This is due to additional vacancies on policy officers and some additional income from Link magazine.

6.3 Former Commercial Services

The current position for the department shows a forecast over-recovery of £90k against the revised budget

Civil Engineering & Highways are predicting a surplus of £190k. **Catering** shows a forecast surplus of £58k and **City Cleansing** a forecast surplus of £40k. The remaining trading services, including Markets, are reporting close to break-even forecasts for the end of the year.

The main area of concern is **Citywide Cleaning**, which is forecasting a deficit of £168k. The service is operating under an old contract, which restricts price increases as expenditure continues to grow. The service is also affected by the new minimum wage demands.

The Commercial Services department will be disestablished once the budget transfers following Revitalising Neighbourhoods have all been finalised. Creativity Works and Architects & Surveyors Services have been formally transferred to the Resources department. The Markets budget will be managed in Cultural Services and all remaining services will be within the Environment department.

6.4 Education & Lifelong Learning

The department's projected overspend is close to £1.1m. The net overspend will be partially funded from departmental earmarked reserve funds and the remainder funded from re-profiling the Secondary Schools transitional budget.

The main reasons for overspending are as follows:

1. Needs led school related expenditure to meet statutory requirements
 - Statementing (£290k overspend)
 - Independent school placements (£247k)
 - Schools Maternity Cover (£154k)
 - SEN Transport (£157k)
2. Core Education departmental overspends resulting from:
 - Increased corporate charges, in particular insurance (£350k), which were not identified at the time the budget was set
 - Termination of a government grant (£63k)
 - Advertising costs given on-going recruitment difficulties (£93k)
3. Responding to Health & Safety requirements regarding glass and glazing (£85k)
4. Underachievement of income:
 - Libraries (£52k)

The departmental overspend also includes savings as a result of unfilled vacancies (£235k) and Premature Retirement Costs (£60k)

6.5 Environment, Regeneration & Development

The department is currently forecasting an underspend of £160k. It is not expected that this will be affected by the outstanding transfers from Commercial Services. The main variances within the department as follows:

- **Highways and Transportation** is anticipating an overspend of £302k. This is largely due to the underachievement of advertising income due to delay in setting up contracts.
- **Regeneration** is anticipating an underspend of around £40k due to savings of £107k (in Article 10) from the urban pilot project – a project which is partly funded by Europe.
- There is a £55k overspend on **Legal Services** fees due to a general increase in requirements for the service,
- **Planning and Development** are predicting a £90k underspend. This is due to

vacancies and increased income from planning applications.

- **Environmental and Regulatory Services** is anticipating a saving of about £400k. This is due to increased fee income from Building Control & Licensing, and a new one off grant from government to cover the cost of disposal of fridges/freezers.

The transfer of Property Services budgets to the Resources department has been completed but the final transfer of the budgets for the trading units from Commercial Services is still outstanding.

6.6 Housing

The department is presently forecasting pressures which would lead to an overspend of £232k. The main budget issues are:

- A £399k overspend on Housing Benefit Administration due to the problems with the implementation of both the DIP system and the verification framework which have resulted in a major overspend in staffing costs
- There is a forecast £364k overspend in Homelessness & Rehousing division. This is due mainly to increased demand for bed and breakfast places, although this now appears to have peaked,
- An underspend of £397k in Hostels. This is due to increased charges and higher than budgeted for occupancy levels.
- There is also a £121k saving in voluntary organisations due to changes in funding regimes as a consequence of Supporting People.

One of the main problem areas for the Department's budgets is the soaring cost of providing temporary accommodation. There is little that can be done in the short term. For the longer term a private sector leasing agreement is being drawn up to reduce bed and breakfast usage. This will help to reduce the level of overspend partly because of the favourable housing benefit subsidy position.

The Director has also implemented a series of measures aimed at minimising the overspend. This includes requiring Directorate approval for all recruitment and office equipment and furniture purchase. Consideration is also being given to any opportunities to capitalise revenue expenditure. The director's view is that measures being taken will enable the budget to be brought in on line.

The Local Taxation service is being transferred to Housing from the Resources, Access & Diversity department although the budget transfers is still to be finalised. This will not have a material impact on the forecast outturn.

Housing Maintenance Trading Unit

The latest forecast outturn for the trading unit indicates a surplus of £200k, which will result in a reserve balance at the end of the year of £304k.

Housing Revenue Account (HRA)

The original budget for the HRA indicated a planned £420k deficit for the end of this year. However the current forecast indicates a £385k surplus.

The major difference is in respect of rents collected, where there is a one-off windfall gain of £950k due to the timing on the collection of rent in 2002/03, and projected savings of £100k from improved void levels. An allowance of £125k is included to support expenditure in the Housing capital Programme.

Based on the current forecast, the HRA reserves balance at the end of the year will stand at £3.083m, well in excess of the recommended minimum balance of £1.5m.

6.7 Social Care & Health

The department is facing considerable budget pressure amounting to £1.7m. These figures do not include potential additional NRF, which may become available if there is further slippage in the 02/03 NRF programme.

A strategy to address this has been developed involving:

- (a) A reduction in activity levels for Home Care Residential & Nursing to be brought below the targets agreed in the summer where possible;
- (b) No new external commissioning will be entered into unless it is clear that no in-house or SLA driven voluntary/independent sector placement/service is available;
- (c) Vacancies with current suppliers in the voluntary and independent sectors (SLAs) to be monitored weekly with the intention of referring service users within existing capacity before buying places elsewhere,
- (d) Arrangements for commissioning domiciliary care are to be reviewed urgently with only absolutely essential new commissions;
- (d) No further top-ups over and above standard fee rates will be paid to independent sector providers;
- (f) All transport commissions to be for a fixed period and not open-ended;
- (g) To substitute external funding into mainstream services where possible;
- (h) Only essential vacancies will be recruited to, and will be authorised by the operational Service Director and the Director of Resources.

The department's position is volatile and there remains a danger of a substantial overspend. The director's action is intended, however, to deliver an overspend below current forecasts.

6.8 Resources Access and Diversity Department

The department is forecasting an overspend of £225k. There are a number of budget pressures, The Corporate director is optimistic that an overspend will be avoided:

(The transfers of the budgets for trading units from Commercial Services (Creativity Works, Architects and Surveyors' services) and the Property Services division from Environment Regeneration & Development have now been agreed, and the effects are included in the figures below).

The major variances within the department are as follows:

- a) The Trading Services are presently forecasting a deficit of £613k in total. The main concerns are:
 - Creativity Works forecast a deficit of up to £200k. The situation is being closely monitored, with all possible action being taken to recover all income due, and to eliminate all non-essential expenditure,
 - Architects Services forecast a £200k deficit. Similar action is being taken to reduce this,
 - Legal Services forecast a deficit of approximately £120k. A thorough review of the administration of the service has been initiated and the measures already taken have improved the position. Further improvements are being pursued to ensure that the fee earners achieve their chargeable hours targets and so maximise income,
 - Payroll forecast a deficit of £85k. The service has recently been the subject of a Best Value review, one of the main conclusions of which is that there needs to be a change in the way the service is provided. A programme for implementing the findings of the review is being developed, but this will not produce savings for a couple of years. In the meantime, efforts are continuing to provide an effective service whilst reducing costs as far as possible.
- b) Democratic services forecast an overspend of £224k; arising from overspends in various sections and the cost of supporting the Royal visit (approximately £100k). Non-essential expenditure is also being avoided.
- c) Financial services (other than Payroll) forecast an underspend of £90k due to one-off sanctions subsidy grant income and savings on employee costs.
- d) Property Services forecast a non-trading underspend of £240k. This is largely due to savings on employee costs pending the completion of the review of Property Services. The figure includes a surplus of £123k on the Investment Property portfolio, part of which is returnable to corporate reserves.

7. CORPORATE BUDGETS

The current projection on Corporate Budgets shows an underspend of around £1.0m. This is largely due to the performance of the capital financing budget.

The underspend reflects a £300k gain from debt rescheduling (that is the premature repayment of existing loans and their replacement with new cheaper loans) undertaken in June. It also reflects the fact that base interest rate remain below levels forecast when the budget was set, good performance by our fund managers, and the fact that the value of cash investments are higher than forecast.

Any underspend on corporate budgets is returned to corporate reserves. However, the projected underspend is partially offset by minor overspends forecast in respect of net recharges and the fire levy.

Adjudication of the outstanding dispute in respect of Swan Bridge is imminent. Any costs falling to the Council will need to be met from reserves.

8. RESERVES FORECAST

The forecast year-end uncommitted General Reserve balance is up to 6m. This is slightly in excess of the recommended minimum working balance of £5m.

At the beginning of the financial year, departments held specific earmarked reserves totalling £4.1m. The current projections indicate a closing balance of £2.9m.

Other significant earmarked reserves include the Insurance Fund and the Payback Fund. These predict closing balances of £4.9m and £0.2m respectively.

9. NEIGHBOURHOOD RENEWAL FUND

The Neighbourhood Renewal Fund (NRF) is a revenue grant introduced by the Government in 2000 and covering the period 2001/02 to 2005/06. The grant is to assist authorities to implement the Government's national renewal strategy.

The City Council was allocated £18.8m over the first three years (£4.2m in 2001/02, £6.3m in 2002/03, £8.4m in 2003/04). It is expected that the majority of the grant is spent in the year it has been allocated and there are explicit instructions relating to year-end carry forward. The Government recently announced that authorities will be allowed to carry forward up to 15% of the 2002/03 allocation to 2003/04.

The majority of projects are now up and running, and a formal monitoring exercise of all projects should be complete by the end of January. This will give a good indication of potential underspend. Should this prove higher than anticipated, there are further reserve projects, which could be actioned at short notice and spend quickly. These include additional support to Social Services (maximum £1m) which is referred to in paragraph 6.7 above

10. LEGAL & OTHER IMPLICATIONS

	Yes/No
Equal Opportunities	No
Policy	No
Sustainable & Environmental	No
Crime & Disorder	No
Human Rights Act	No
Elderly People/ People on Low Income	No

11. DETAILS OF CONSULTATION

All departments have been consulted via Directors' Board.

12. BACKGROUND PAPERS

None.

Author: Devanshi Mavani/Alison Greenhill
Principal Accountant - Ext. 7421

**MARK NOBLE
CHIEF FINANCE OFFICER**

**GENERAL FUND REVENUE
BUDGET MONITORING
PERIOD 8
2002/03**

	Revised Budget for Year	Actual Exp. to Period 8	Forecast Outturn	Forecast Variance	Forecast Variance	% Spend Period 8 2002/03	% Spend Period 8 2001/02
Department	£000	£000	£000	£000	%		
Cultural Services & Neighbourhood Renewal	14,433.2	10,056.0	14,433.2	0.0	0.0%	69.7%	68.3%
Chief Executive's Office	2,612.8	1,716.7	2,602.7	(10.1)	-0.4%	65.7%	69.7%
Commercial Services	(211.8)	n/a	(300.6)	(88.8)	41.9%	n/a	n/a
Education & Lifelong Learning	155,025.7	107,057.0	156,103.7	1,078.0	0.7%	69.1%	68.5%
Environment, Regeneration & Development	34,781.0	19,258.2	34,619.0	(162.0)	-0.5%	55.4%	56.1%
Housing Department	5,723.7	4,571.0	5,956.2	232.5	4.1%	79.9%	74.0%
Housing Benefit Payments	2,486.8	3,176.2	2,886.8	400.0	16.1%	127.7%	n/a
Social Care & Health	63,353.9	46,536.2	65,022.7	1,668.8	2.6%	73.5%	71.7%
Resources, Access & Diversity	16,652.3	13,545.7	16,877.3	225.0	1.4%	81.3%	71.5%
Total Departments	294,857.6	205,917.0	298,201.0	3,343.4	1.1%	69.8%	68.3%
Corporate Budgets							
Levies	7,230.9	4,037.3	7,230.9	0.0	0.0%		
Miscellaneous	2,638.3	1,039.6	2,706.7	68.4	2.6%		
Capital Financing	10,259.0	n/a	9,025.0	(1,234.0)	-12.0%		
Total Corporate Budgets	20,128.2	5,076.9	18,962.6	(1,165.6)	-5.8%		
TOTAL GENERAL FUND	314,985.8	210,993.9	317,163.6	2,177.8	0.7%		
Net Recharges	(3,146.0)						
TOTAL GENERAL FUND	311,839.8						