

Leicester
City Council

**CABINET
RESOURCES & EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE**

26th SEPTEMBER 2005

15st SEPTEMBER 2005

REVENUE BUDGET MONITORING 2005/2006 – PERIOD 4

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 first in the regular cycle of reports for the 2005/2006 financial year showing budget issues that 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 Resources and Equal Opportunities Scrutiny Committee will receive the appendices that relate to its portfolio and a summary report considering the overall position.
- 1.3 The Cabinet will receive this covering report and the overall position for the Council.
- 1.4 Members of the Cabinet or the Resources and Equal Opportunities Scrutiny Committee wishing to see the appendices relating to any portfolio not appended to the report should please contact the report author.

2. SUMMARY

- 2.1 The General Fund budget set for the financial year 2005/2006 was £381.8m. Together with the sums carried forward by service departments from 2004/2005, the revised budget is now £382.1m. After 4 months of the year, 31% 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.

3. RECOMMENDATIONS TO CABINET

- 3.1 The Cabinet is recommended to:
- a) Note the changes made to the original approved budget for 2005/06;
 - 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) Approve the transfer of the £1m DfES creditor to the Education Departmental reserve as outlined in paragraph 5.2.6
- 3.2 Scrutiny Committees are asked to consider issues affecting their portfolio and make any observations to the Cabinet as they see fit.
- 3.3 The Resources and Equal Opportunities Scrutiny Committee is asked to consider the overall position for the whole Council and make any observations it sees fit.

4. **FINANCIAL IMPLICATIONS**

The report is solely concerned with financial issues .

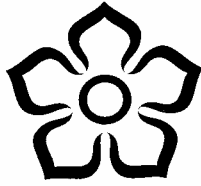
5. **LEGAL IMPLICATIONS**

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

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Principal Accountant

DECISION STATUS

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



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City Council

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RESOURCES & EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE**

26th September 2005

15th September 2005

REVENUE BUDGET MONITORING 2005/06– PERIOD 4

REPORT OF THE CHIEF FINANCE OFFICER

SUPPORTING INFORMATION

1. INTRODUCTION

- 1.1 This report provides a summary position for all expenditure at the end of period 4 for the financial year 2005/2006.
- 1.2 The report is the first full report for this financial year, and shows the overall General Fund position against the original budget (£381.8m) adjusted to £382.1m for underspends carried forwards from 2004/05 of £0.3m. A further report will be presented to Cabinet and Scrutiny committees at period 7 and outturn.

2. SUMMARY OF THE REPORT

- 2.1 After 4 months of the year, 31% of the revised budgets of departments have been spent.
- 2.2 At this early stage in the year, Education, RAD and Social Care and Health have all identified significant budget pressures that require management action in order to avoid an overspend at the year end. In some cases even at this early stage it is predicted that departmental reserves will need to be used to ensure a break-even outturn is achieved. In these cases, action is being taken now to prevent overspends in future years and to inform the budget process. Further information is contained in section 5 of this report.
- 2.3 The Housing Revenue Account (HRA) is forecasting a small surplus compared with the budgeted deficit for the year of £0.5m. This is mainly as a result of increased dwelling rental income following improved occupancy levels and fewer sales. The forecast balance at year-end is £4.6m (compared with an original budget of £2.1m).
- 2.4 Corporate budgets are anticipating a saving of over £1m. This continues to be due

to high cash balances earning interest. The budgeted cash balances were increased significantly in 2005/06 but continue to surpass expectations.

3. **BUDGET FOR 2005/06**

- 3.1 The General Fund budget for the financial year 2005/06 is **£381.8m**, of which £1.8m is being funded from general reserves resulting in a net budget requirement of £380m. After adding the approved net underspend carried forward from 2004/05 (**£0.3m**) the budget for the year is now **£382.1m**.
- 3.2 Each Corporate Director is required by Finance Procedure Rules to ensure that services are delivered within budget, and has the responsibility of providing a framework for monitoring the budgets within the guidelines provided by the Chief Finance Officer. Financial control is maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year.
- 3.3 Corporate Directors are responsible for their controllable budgets. These include employee costs, running costs and income. 'Indirect expenditure' or 'below the line charges' are the responsibility of the service provider with the cost of those services being included in the providers' controllable budgets.
- 3.4 The table below details the revised net direct budget for the Authority.

Table 1	Original Budget for 2005/06	Approved Carry forwards	Virements	Revised Budget for 2005/06
<u>Department</u>	£000	£000	£000	£000
Chief Executive's Office	2,431.0	120.5	-	2,551.5
Education & Lifelong Learning	192,524.8	-	-	192,524.8
Regeneration & Culture	53,322.6	-	-	53,322.6
Housing	6,611.3	-	-	6,611.3
Housing Benefits	469.0	-	-	469.0
Social Care & Health	88,086.9	211.6	-	88,298.5
Resources, Access & Diversity	18,708.4	-	-	8,708.4
Total Departments	362,154.0	332.1	0.0	362,486.1
<u>Corporate Budgets</u>				
Levies	73.8	-	-	73.8
Miscellaneous	8,543.0	-	-	8,543.0
Capital Financing	14,600	-	-	14,600.0
General Fund (excl. net recharges)	385,370.8	332.1	0.0	385,702.9
Net Recharges	(3,597.0)	-	-	(3,597.0)
TOTAL GENERAL FUND	381,773.8	332.1	0.0	382,105.9

4. SUMMARY OF PROJECTIONS

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

5. SIGNIFICANT ISSUES ARISING FROM DEPARTMENTS

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

5.1 Chief Executive's Office

5.1.1 There are no major issues of concern in the Chief Executive's Office and the department is presently forecasting a small underspending.

5.2 Education & Lifelong Learning

5.2.1 The department is facing considerable budget pressures in 05/06 arising from a number of issues. In particular, the independent schools budget is predicting an overspend of £0.5m for fees at non-maintained schools, due to a large increase in the number of pupils with Special Educational Needs (SEN) whose educational needs cannot be met elsewhere. A report is currently being prepared to identify options for managing this budget in future years. For 2005/06, this projected overspend will be funded largely through the use of the education support contingency (£0.4m), which will require the approval of the Schools Forum and through the schools block reserve (£0.1m).

5.2.2 A further pressure of £0.8m is anticipated on home to school transport services. It will be very difficult for this pressure on the transport budget, brought about by savings approved from the efficiency review, to be contained within the overall resources. The cessation of secondary review funding exacerbates the problem. This predicted overspend will be funded through small underspends in other areas of the department, such as human resources (£0.1m), and through the application of the departmental reserve (£0.7m).

5.2.3 The department also needs to fund some items that have not been included in the above forecast and for which there is currently no budgetary provision. These items include the department's share of the cost of the Integrated Services Review (£119k), maintaining the workplace nursery (£60k) and the costs incurred in commissioning Robson Rhodes to conduct the review of the Lifelong Learning division (£32k). These costs will be met from departmental reserves unless corresponding savings can be found.

5.2.4 However, a favourable issue has arisen as part of the audit of the 2004/05 accounts. Included in the 2004/05 accounts is a £1m creditor in relation to DfES accrued before LGR. All reasonable steps have been taken to give the DfES the opportunity to reclaim the money. I propose to transfer this sum into the Education departmental earmarked reserve, with a view to using it to meet the expected overspend on operational transport and other pressures in the department.

5.2.5 Lifelong Learning Division

As members will be aware, the Lifelong Learning Division overspent by £1m in

2004/05, and (last March) was projecting to overspend by £2.2m per year as a consequence of its budget plans. A recovery plan was agreed by the Council on 28th July 2005, which was expected to reduce the ongoing over-commitment to £1m per annum (further work being required in the context of further strategic changes to eliminate this entirely). The budget was balanced in 2005/06 by use of savings previously set-aside for capital investment and the departmental investment reserve.

- 5.2.6 Significant work has now taken place to set up a robust framework for monitoring the expenditure of the division. This was not possible in the early months of the year whilst the problem was being resolved, and expenditure was controlled by means of a freeze on non-essential expenditure. The budget is now wholly allocated to nominated cost centre managers, training has been provided and the Council's FMIS system reflects (or will very shortly reflect) the budget agreed by the Council. Some work remains to take place as a consequence of the Robson Rhodes action plan – notably completion of a skills assessment and further training. At present, there is no realistic projection of expected outturn for the division but this will be produced during September.

5.3 Regeneration & Culture

- 5.3.1 At this early stage of the year the department is forecasting a **balanced outturn** (i.e. an overall break even position). However, there are pressures on accommodation budgets due to service areas moving buildings and other operational pressures. A cross-departmental budget review is being undertaken by management in order to contain these within the overall budget.
- 5.3.2 The departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) are all forecasting a break-even position.

5.4 Housing

- 5.4.1 The department is overall forecasting an **outturn within budget**. At this early stage of the year it is anticipated that additional costs of £0.2m will arise for additional staff required to deal with the backlog of Housing Benefits claims. There is, however, forecast additional income of £0.1m arising from higher levels of occupancy in hostels and £0.1m arising from a grant award for achieving PSA targets in private sector housing.

5.4.2 Housing Benefit Payments

The current forecast indicates **outturn close to budget**. There are a number of factors that can affect this volatile budget including:

- Any variations arising from the audit of the 2004/05 claim;
- Issues relating to the 2003/04 claim which is still outstanding; and
- Overpayments/overpayment recoveries.

The budget includes provision for additional costs arising from the above which could be significant due to the scale of activities (£105m payments per year).

5.4.3 **Housing Maintenance Trading Unit**

The present forecasts indicate a surplus close to the budgeted surplus of £0.2m. This surplus will be used to fund capital expenditure as part of the HRA capital programme.

5.4.4 **Housing Revenue Account**

The original budget for the HRA indicated a planned £466k deficit for the end of this year to be met from HRA balances. A small surplus is now expected mainly due to an increase in dwelling rents following improved occupancy levels and fewer Right-to-Buy sales. The projected HRA balance at the end of the year is now £4.6m. Potential applications of the surplus include a scheme to upgrade television connections from analogue to digital, and to meet possible costs of pay protection arising from the implementation of the new job evaluation scheme.

5.5 **Social Care & Health**

5.5.1 The department's current forecast indicates **net pressures of £0.6m**. These pressures include indications of 'overheating', primarily in the Community care commissioning of home care and residential packages, together with pre-existing risks within the budget for example, (funding for service user transport and volatility of demands on the children's agency budget). The figure also includes the Department's share of the cost of the Integrated Services review (£119k)

5.5.2 The department is mindful that in preparation for the move to the new Adults and Children's Departments, there may be less possibility for savings in one part of the department to support an overspend elsewhere.

5.5.3 The department is expecting its managers to live within their means, which we appreciate is not always easy in the face of rising pressures and demands. Given their past achievements, they do feel confident in their ability to manage this situation. The department feels that they have an excellent record of establishing and working to priorities in a difficult climate.

5.5.4 With this in mind, the Directorate has agreed that Service Directors and Divisional Management Teams will agree revised plans to ensure that they live within their allocated budget for the year – within three broad blocks, i.e. Children's (including our Federated Services), Adults/Older People, and Resources/Directorate. However, it will be very difficult for the pressure on the transport budget, brought about by savings approved from the efficiency review, to be contained within their overall resources. Only by taking action at this stage of the year will they be able to ensure that each of the blocks finishes the year in line with its budget, with the possible exception of the transport element.

5.6 Resources Access & Diversity

5.6.1 The department is presently forecasting a pressures of **£0.6m** before any action is taken. It continues to experience significant budget pressures in some areas, and overspends are forecast for the Coroner's service (£220k), Land charges income (£150k), Admin Buildings (£100k). There are a number of minor under-spends forecast which will partially offset these intransigent pressures, but the Department is also considering other measures to ensure a balanced outturn. These measures include the use of departmental earmarked reserves and a restriction on non-essential spending.

6. CORPORATE BUDGETS

6.1 This budget (£23.2m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£14.6m) is by far the largest element of the budget but it also includes bank charges, audit fees, levies and other miscellaneous expenditure.

6.2 The Capital Financing budget is forecasting a saving in excess of £1m. This saving mainly reflects large net cash inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. This has led to higher levels of interest being received. The budget for this interest was set at higher levels than previous years but is still likely to be exceeded. In addition savings have resulted from new loans being well timed, and raised at interest rates lower than assumed when the budget was set.

7. 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	-

8. DETAILS OF CONSULTATION

8.1 All departments are consulted on revenue budget monitoring.

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Date: 24/08/2005

MARK NOBLE
CHIEF FINANCE OFFICER

**GENERAL FUND REVENUE BUDGET MONITORING
PERIOD 4: 2005/06**

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 4
Department	£'000	£'000	£'000	£'000	£'000
Chief Execs Office	2,431.0	120.5	-	2,551.5	955.2
Education & Lifelong Learning	192,524.8	-	-	192,524.8	59,383.3
Regeneration & Culture	53,322.6	-	-	53,322.6	14,117.4
Housing	6,611.3	-	-	6,611.3	2,563.0
Housing Benefit	469.0	-	-	469.0	156.3
Social Care & Health	88,086.9	211.6	-	88,298.5	30,856.8
Resources, Access & Diversity	18,708.4	-	-	18,708.4	4,968.7
Total Departments	362,154.0	332.1	-	362,486.1	113,000.7
Corporate Budgets					
Levies	73.8	-	-	73.8	39.0
Miscellaneous	8,543.0	-	-	8,543.0	1,926.0
Capital Financing	14,600.0	-	-	14,600.0	N/a
Total Corporate Budgets	23,216.8	-	-	23,216.8	1,965.0
TOTAL GENERAL FUND (Excl. Recharges)	385,370.8	332.1	-	385,702.9	114,965.7
Net Recharges	(3,597.0)	-	-	(3,597.0)	
TOTAL GENERAL FUND	381,773.8	332.1	-	382,105.9	