

Leicester
City Council

**CABINET
RESOURCES AND CORPORATE ISSUES
SCRUTINY COMMITTEE**

25th September 2006

14th September 2006

REVENUE BUDGET MONITORING 2006/07– PERIOD 3

REPORT OF THE CHIEF FINANCE OFFICER

1.0 INTRODUCTION

- 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 2006/2007 financial year showing budget issues that have arisen 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 Corporate Issues 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 Corporate Issues 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 2006/2007 was £232.5m. Together with the sums carried forward by service departments from 2005/2006 of £0.2m, the revised budget is now £232.7m. After 3 months of the year, 29% 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 2006/07;
- 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;

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 Corporate Issues 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**

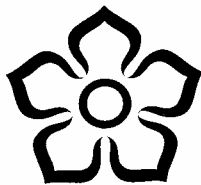
There are no direct legal implications in this report. Peter Nicholls, the Head of Legal Services has been consulted in the preparation of this report.

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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)



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REVENUE BUDGET MONITORING 2006/07– PERIOD 3

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 3 for the financial year 2006/2007.
- 1.2 The report is the first full report for this financial year, and shows the overall General Fund position against the original budget (£232.5m) adjusted to £232.7m for under/over spends carried forward from 2005/06 of £0.2m. Further reports will be presented to Cabinet and Scrutiny committees at period 7, period 9 and outturn.

2. SUMMARY OF THE REPORT

- 2.1 After 3 months of the year, 29% of the revised budgets of departments have been spent.
- 2.2 At this early stage in the year, Adult and Community Services, Resources and Housing 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 may need to be used to ensure a break-even outturn is achieved. Further information is contained in section 5 of this report.
- 2.3 The Housing Revenue Account (HRA) is forecasting a slightly smaller deficit compared with the budgeted deficit for the year of £1.7m. This is mainly as a result of reduced capital financing costs due to a number of factors including reduced prudential borrowing costs. The forecast balance at year-end is £2m (compared with an original budget of £2.3m).
- 2.4 Corporate budgets are anticipating a potentially significant savings arising from a large net cash inflow to the authority on which interest is being earned.

3. **BUDGET FOR 2006/07**

- 3.1 The General Fund budget for the financial year 2006/07 is **£232.5m**, of which £1.3m is being funded from general reserves resulting in a net budget requirement of £231.2m. After adding the approved carried forward amounts from 2005/06 (**£0.2m**) the budget for the year is now **£232.7m**.
- 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.
- 3.3 Financial control is generally maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year. However 2006/07 is unique due to the Integrated Services Project (ISP). This project is reconfiguring Council services in response to the Children Act 2004 and although the project is well underway the budget transfers from the old departmental structures to the new are unlikely to be finalised until late October. In order to ensure robust financial management arrangements are in place during the interim period, and until Cabinet formally agree the budgets for the new departments, a budget monitoring protocol has been established and endorsed by Senior Management. This protocol ensures clear lines of responsibility are in place by aligning Corporate Director budget responsibility with service provision, enabling reporting to be done on the new departmental management structure, and identifies the responsibilities of finance support staff.
- 3.4 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.
- 3.5 The table below details the provisional revised net direct budget for the authority presented in the new departmental structure.

Table 1	Restated Original Budget for 2006/07	Approved Carry forwards	Virements	Provisional Revised Budget for 2005/06
Department	£000	£000	£000	£000
Chief Executive's Office	2,395.8	-	-	2,395.8
Children & Young People	54,928.1	-	107.6	55,035.7
Regeneration & Culture	59,303.5	6.9	937.1	60,247.5
Housing	6,298.4	(32.4)	42.0	6,308.0
Housing Benefits	487.8	-	-	487.8
Adult & Community Services	68,149.0	210.1	(22.6)	68,336.5
Resources	18,269.5	-	318.0	18,587.5
Total Departments	209,832.1	184.6	1,382.1	211,398.8
Corporate Budgets				
Miscellaneous	8,810.4	-	(1,130.0)	7,680.4
Capital Financing	17,165.0	-	-	17,165.0
General Fund (excl. net recharges)	25,975.4	-	(1,130.0)	24,845.4
Net Recharges	(3,272.6)	-	(252.1)	(3,524.7)
TOTAL GENERAL FUND	232,534.9	184.6	0	232,719.5

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 overspend.

5.2 Children & Young People

5.2.1 At this early stage of the year the department is forecasting a small underspend. There are a number of significant variances forecast and these are outlined in the following paragraphs.

5.2.2 The Special Education Service which is funded from the Dedicated Schools Grant (DSG) has budgetary pressures amounting to £0.6m. This has partially arisen due to a large increase in pupils with special educational needs, whose needs cannot be met locally (£0.4m). The 2006/07 budget includes an additional £0.5m growth for this area, however, both the pupil numbers and costs continue to exceed expectations. In addition to this, there has been a reduction in the take-up by the County Council of places in the City's special schools resulting in a forecast overspend of £0.2m. This cost can be partially funded from the schools block contingency budget (£0.4m), subject to approval by the schools forum, with the remainder funded from small underspends elsewhere within the schools block.

5.2.3 The home to school transport budget, which included significant growth in 2006/07, is currently reporting a breakeven position. However there are a number of risks associated with this budget and some details of the associated costs are currently being investigated, as there are some indications of underlying cost pressures. The position on this budget will continue to be monitored closely.

5.2.4 Costs associated with service user transport (formerly within the Social Care and Health Department) continue to exceed the budget and pressures of £0.5m have been identified. This can be contained by a number of relatively small underspends in other areas of the division.

5.2.5 Schools

Budget monitoring returns have not yet been received from schools and the next full monitoring cycle will be reported at period 7. The budget includes £170.3m Dedicated Schools Grant income from the government, and the final grant allocation is £0.8m lower than anticipated, largely due to reduced pre-school pupil numbers. This has not been included within the overall forecast as officers are currently exploring options to contain this shortfall.

5.3 Regeneration & Culture

- 5.3.1 At this early stage of the year the department is forecasting a **balanced outturn**.
- 5.3.2 The main budget pressure is in achieving the organisational review staff savings of £0.7m incorporated into the budget strategy for 2006/07. Reviews have begun in all divisions with a scheduled completion date of November. Officers are currently reviewing the savings target taking into account the latest information including current vacancy levels and this will be incorporated in the next forecast.
- 5.3.3 A rent review for the Haymarket car park has been undertaken resulting in a budget shortfall of £250k. The Haymarket car park income is also affected by a lengthy legal case relating to the treatment of VAT on car parking income. This case is unlikely to be resolved in the near future.
- 5.3.4 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 currently forecasting pressures **of £0.2m**. This forecast assumes that a funding shortfall of £394k, relating to the Leicester Anti-Social Behaviour Unit (LASBU) will be met from the HRA (£183k), Crime and Disorder growth funding (£170k) and the Adult and Community Services Department (£41k), as recommended in a report due to be presented at Cabinet on the 5th September.
- 5.4.2 The Housing benefits service is forecasting pressures of around £80k due to an external agency being used to clear a backlog of claims. In addition there are pressures on Bed and Breakfast budgets of £100k due to an increased demand for accommodation.
- 5.4.3 **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 2005/06 claim;
- Issues relating to the 2004/05 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 (£109m payments per year).

5.4.4 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.

5.4.5 **Housing Revenue Account**

The original budget for the HRA indicated a planned £1.7m deficit for the year to be met from HRA balances, which stood at £3.4m as at 31st March 2006. A small reduction in the deficit is now expected mainly as a result of reduced capital financing costs due to a number of factors including reduced prudential borrowing charges. This forecast includes the additional costs associated with the funding shortfall for LASBU as outlined in paragraph 5.4.1.

5.5 **Adult and Community Services**

5.5.1 Overall, at this early stage of the year, **pressures of up to £1.3m** across the Department have been identified, with a number of additional risks and uncertainties associated with major service and organisational reviews such as Adult Learning Options and the Integrated Services Programme. The more significant pressures are outlined in the following paragraphs. Members are reminded that the allocation of budgets from the old departments to the new has not yet been finalised and once this exercise is completed, there could be an impact on the department's forecasts.

5.5.2 The Community Care (Adults) and Older People's Divisions (from the former Social Care and Health Department) are reporting spending pressures up to £1.3m. This reflects the pressures on community care services evident for a number of years and the level of commitments at the start of the year, including home care, residential placements, Adult Mental Health services and the impact of the corporate transport efficiency review. Managers are exploring options for reducing the forecast spending, although options are limited due to the need to meet assessed needs under the Fair Access to Care criteria and the need to achieve urgent performance improvements and targets in key areas. There are also concerns that the requirement for the NHS to achieve financial balance this year will further impact on the Department. Examples locally include cost improvements being required of the NHS Trust providing Learning Disability and Mental Health services which are closely linked to those of the Council, the impact of the hot summer on the acute hospitals and the need to invest in Intermediate Care (which should be the best longer term "invest to save" strategy).

5.5.3 The Strategy, Performance, Commissioning and Business Support Division (the former Social Care and Health Resources Division plus Supporting People from the Housing Department and the Adult Social Care Planning Function) is forecast, at this stage, to break even. Accurate forecasting at this point is difficult, as the Division is aiming to absorb work arising from the Integrated Services Project and the costs of additional performance posts required by the Corporate Director to help address Social Care performance issues. In addition, it will of course be restructured later in the year to reflect the portfolio of the Adult and Community Services Department.

5.5.4 At this stage, the Safer and Stronger Communities Division is expected to break even, subject to the current understanding of risks. It is anticipated that the Youth Offending Service will achieve an underspend of around £100k, due to the underspend carried forward from 2005/06, lower running costs and external funding. The Drug and Alcohol Action Team is expected to break even, although its

funding is entirely ringfenced. Adult Learning Services are currently the subject of a major service reconfiguration process. The transformational one-off costs and the on-going costs of the service this year are currently being quantified and will be compared to the available resources over the coming weeks. At this stage, it is not possible to be definite regarding the overall financial picture, and when the position becomes clearer the financial projections for the service and for the Department overall may need to be revised. Community Services is aiming to remain within budget, although the Adult Options review and possible changes to other services may reduce income for the use of community settings by up to £200k, which would pose a risk to the budget.

- 5.4.5 The Department aims to reduce the budgetary impact of the potential pressures by reviewing where expenditure could be deferred until the financial position is clearer later in the year. The Departmental Management Team is currently considering the action that could be taken, and the resulting proposals will be discussed with the Cabinet Lead. Reducing spending will not be easy, as the pressures largely relate to social care services commissioned to meet the assessed needs of service users. However, the actions to be proposed by the Management Team could make savings of around £700k. Further options will then be considered for managing the remaining pressures. Members are asked to note that the measures that may need to be taken could impact on performance, for example freezing posts could mean that Government targets on reviewing and assessment are not hit.

5.6 Resources

- 5.6.1 The Department continues to operate with a number of services under financial pressures which are expected to lead to overspends by the year end:

- The Coroners' service has had problems for several years, but with the prospect of a national review of the financing of Coroner's Services it has been decided by the Departmental Management Team to absorb the costs if at all possible. The deficit in 2006/07 is currently forecast to be around £250k.
- The Land Charges budget was the subject of a 2- year recovery plan in the 2006/07 – 2008/09 DRS. There is currently a forecast shortfall of £33k against this plan.
- The Childcare Vouchers scheme will take longer than previously envisaged to generate the anticipated savings, and a shortfall of £80k is forecast.

- 5.6.2 The forecast overspends are expected to be offset by savings within Financial Services (mostly staffing), Property Services (Non-Trading) and some additional income generated by the Community Languages team. The net result is that the Department therefore expects to be able to deliver an outturn within the available budget.

6. CORPORATE BUDGETS

- 6.1 This budget (£24.8m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£17.2m) 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 significant savings. This is due to interest earned on cash balances. Since the budget was set, a very substantial amount of cash has been received into the Council's bank account (net of money spent), far in excess of the usual pattern of cash flow at this time of year. Predicting and understanding cash flow is notoriously difficult, given that it represents the flow of all council tax, grants, rents and other income and expenditure on all services. We are seeking to understand the reasons for this inflow, and will confer with other urban authorities to see if they have experience anything similar. It is, however, dangerous to extrapolate the impact on interest earned for the remainder of the year; the money does not represent additional funds available to the Council, and simply represents cash held in advance of need or earmarked for some purpose.
- 6.3 The Council's underlying cash balances have risen inexorably over the last 9 years as shown by the graph at Appendix B.

7. FINANCIAL INDICATORS

- 7.1 As part of the 2006/07 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.
- 7.2 It is too early to report sensible projections, but they will be available at your next report.

8. 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	-

9. DETAILS OF CONSULTATION

- 9.1 All departments are consulted on revenue budget monitoring.

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Date: 11/08/2006

MARK NOBLE
CHIEF FINANCE OFFICER

GENERAL FUND REVENUE
BUDGET MONITORING PERIOD 3 2006/07

APPENDIX A

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 3	% Spend Period 3 2006/07	% Spend Period 3 2005/06
	£000	£000	£000	£000	£000	%	%
Chief Executive's Office	2,395.8	0.0	0.0	2,395.8	808.3	33.7%	37.4%
Children and Young People *	54,928.1	0.0	107.6	55,035.7	16,915.6	30.7%	n/a
Regeneration & Culture	59,303.5	6.9	937.1	60,247.5	16,158.0	26.8%	26.5%
Housing	6,298.4	(32.4)	42.0	6,308.0	2,891.7	45.8%	38.8%
Housing Benefit	487.8	0.0	0.0	487.8	122.0	25.0%	33.3%
Adult & Community Services	68,149.0	210.1	(22.6)	68,336.5	19,488.2	28.5%	n/a
Resources	18,269.5	0.0	318.0	18,587.5	5,386.9	29.0%	26.6%
Total Departments	209,832.1	184.6	1,382.1	211,398.8	61,770.7	29.2%	31.2%
Corporate Budgets							
Miscellaneous	8,810.4	0.0	(1,130.0)	7,680.4	118.0		
Capital Financing	17,165.0	0.0	0.0	17,165.0	n/a		
Total Corporate Budgets	25,975.4	0.0	(1,130.0)	24,845.4	118.0		
TOTAL GENERAL FUND	235,807.5	184.6	252.1	236,244.2	61,888.7		
Net Recharges	(3,272.6)	0.0	(252.1)	(3,524.7)			
TOTAL GENERAL FUND	232,534.9	184.6	0.0	232,719.5			

*The Children and Young People actual at period 3 is adjusted for ¼ of the DSG income in order to present a realistic % spend to date position.

Appendix B

Balances 1997 To Date

(Cash Invested Or Temporarily Used In Lieu Of Borrowing To Fund Capital)

