Revenue Budget Monitoring – Period 6, 2018/19

Decision to be taken by: City Mayor
Date of decision: 3 January 2019
Overview Select Committee date: 13 December 2018
Lead director: Alison Greenhill

Useful information

- Ward(s) affected: All
- Report author: Amy Oliver
- Author contact details: amy.oliver@leicester.gov.uk

1. Summary

This report is the second in the monitoring cycle for 2018/19 and forecasts the expected performance against the budget for the year.

The scale of Government funding cuts has put departments under pressure to provide services with less funding. This is a national issue and recent articles in the press have highlighted councils that are overspending and have not achieved planned saving targets. The LGC recently reported 80% of councils are expected to overspend during 2018/19. The average overspend for Unitary Authorities is estimated at £2.3m in this financial year.

The level of overspends forecast nationally by councils demonstrates the challenge all authorities face, and it is pleasing that the Council is forecasting it will not overspend is budget this year. This does not mean we can become complacent, as the Council is still seeing continued growth in demand in Adult Social Care and Children's Services. Further to this only with the achievement of the Spending Review targets will the council progress towards balancing the budget in future years.

The key issues during the last few years have been the continued pressures within Adult Social Care and Children's Services. These continue to loom large, particularly given the large sums involved and the impact increases in demand for statutory social care can have on the Council's entire budget. It is encouraging to report that, at this stage of the year, both departments forecast they can live within their resources. Adult Social Care has not experienced an overspend since 2015/16.

As previously reported, there are some significant pressures in City Developments and Neighbourhoods. The department has adopted the approach of planning to over-achieve its required savings for the Council's budget strategy and using the first fruits of this policy to balance its budget. Following the realignment of budgets in period 3, along with achievement of spending review savings the department is now forecast to remain in budget for the year.

In 2015, the Council agreed a new policy for repaying debt incurred on previous years' capital expenditure. This would have saved considerable sums of money, but implementation was deferred until the budget outlook necessitated it (in effect, we are simply slowing down debt repayment). We believe that the position now requires this change to be made, and doing so in 18/19 will increase the amount available for the managed reserves strategy (to support future years' budgets). Consequently, the capital financing budget is forecasting a large underspend, but this arises from a deliberate policy change.

It is our usual practice to use this report to seek Executive approval to budget reductions arising from savings achieved by means of management action within the monitoring reports. With the advent of the Spending Review 4 programme and to aid clarity of the report, these are shown in a separate appendix (Appendix C).

2. Recommendations

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report;
- Approve the budget reductions arising from achieved spending review savings, as detailed in Appendix C of this report;
- Note a saving of £500k as a result of a change in treatment of VAT for Sports Services.

2.2 The OSC is recommended to:

- Consider the overall position presented within this report and make any observations it sees fit.

3. Supporting information including options considered:

The General Fund budget set for the financial year 2018/19 was £259.7m.

Appendix A summarises the budget for 2018/19. Whilst all departments are forecasting spend very close to budget, this arises from active management of the budget (and the use of one off sums set aside for this purpose);

Appendix B provides more detailed commentary on the forecast position for each area of the Council's operations;

Appendix C details the budget amendments required, consequent to spending review savings;

4. Financial, legal and other implications

4.1 Financial & Legal implications

This report is solely concerned with financial issues.

Alison Greenhill, Director of Finance, Ext 37 4001

4.2 Climate Change and Carbon Reduction implications

This report is solely concerned with financial issues.

4.3 Equality Impact Assessment

No Equality Impact Assessment (EIA) has been carried out as this is not applicable to a budget monitoring report.

4.4 Other Implications

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-
Elderly/People on low income	No	-
Corporate Parenting	No	-
Health Inequalities Impact	No	-

No other implications are noted as this is a budget monitoring report, and therefore no policy changes are proposed.

5. Background information and other papers.

Report to Council on the 21st February 2018 on the General Fund revenue budget 2018/19.
Period 3 Monitoring report and minutes of OSC Finance task group presented to OSC on 13th September 2018.

6. Summary of appendices:

Appendix A – P6 Budget Monitoring Summary;

Appendix B – Divisional Narrative – Explanation of Variances;

Appendix C – Spending Review Savings

7. Is this a private report?

No

8. Is this a "key decision"?

Yes

APPENDIX A

Revenue Budget at Period 6, 2018/19

2018-19 Period 6 Monitoring	Current Budget for Year	Forecast @ Period 6	Variance
Neighbourhood & Environmental Services	31,720.8	31,721.2	0.4
Tourism Culture & Inward Investment	5,989.9	5,990.1	0.2
Planning,Development & Development	15,845.2	15,845.1	(0.1)
Estates & Building Services	4,473.8	4,473.7	(0.1)
Departmental Overheads	629.8	629.7	(0.1)
Fleet Management	31.0	30.9	(0.1)
Adults Skills & School Organisation & Admissio	(80.2)	(80.2)	0.0
Housing Services	3,106.3	3,106.1	(0.2)
City Development & Neighbourhoods	**61,716.6**	**61,716.6**	**0.0**
Adult Social Care	**104,014.4**	**104,014.4**	**0.0**
Public Health & Sports Services	**20,538.4**	**20,538.4**	**0.0**
Strategic Commissioning & Business Support	586.7	586.7	0.0
Learning Services	10,648.6	10,648.6	0.0
Children, Young People & Families	54,960.4	54,960.4	0.0
Departmental Resources	(6,575.4)	(6,575.4)	0.0
Education & Childrens Services	**59,620.3**	**59,620.3**	**0.0**
Delivery, Communications & Political Governar	5,424.6	5,638.4	213.8
Financial Services	10,587.3	10,587.3	0.0
Human Resources	4,252.9	3,989.9	(263.0)
Information Services	9,374.3	9,374.3	0.0
Legal Services	2,628.5	2,628.5	0.0
Corporate Resources & Support	**32,267.6**	**32,218.4**	**(49.2)**
Housing Benefits (Client Payments)	500.0	500.0	0.0
Total Operational	**278,657.3**	**278,608.1**	**(49.2)**
Corporate Budgets	4,027.1	1,651.6	(2,375.5)
Capital Financing	14,020.6	5,930.8	(8,089.8)
Total Corporate & Capital Financing	**18,047.7**	**7,582.4**	**(10,465.3)**
Public Health Grant	(26,804.0)	(26,804.0)	0.0
Use of Reserves	(10,227.8)	(10,227.8)	0.0
TOTAL GENERAL FUND	**259,673.2**	**249,158.7**	**(10,514.5)**

Divisional Narrative – Explanation of Variances

Corporate Resources and Support

Corporate Resources Division is forecasting an underspend of £49k on a net budget of £32.3m, although £213k of additional Coroner's costs are anticipated (which are not met from the department's budget).

1. Finance

1.1. The Financial Services Division expects to break even.

2. Human Resources & Workforce Development

2.1. Human Resources are forecasting an underspend of £263k which will contribute towards the cost of Digital Transformation Team included in DCPG.

3. Information Services

3.1. Information Services is forecasting a break even position.

4. Delivery Communications & Political Governance (DCPG)

4.1. The Delivery, Communications and Political Governance Division forecasts an underspend of £49k, once the HR underspend is used to contribute to the costs of the Digital Transformation Team.

5. Legal, Registration & Coronial Services

5.1. Legal Services Division is forecasting a balanced outturn.

5.2. Coronial Services are forecasting an overspend of £213k due to high costs in pathology tests, and increased workload, continuing the pattern of recent times. The overspend will be funded from Corporate Reserves in line with normal policy.

City Development and Neighbourhoods

The department continues to forecast a balanced outturn on a net budget of £62.3m. Divisional budgets are on track, following the budget realignments agreed in the period 3 report, as a consequence of savings achieved.

Following a review, a further £209k p.a. is to be charged by the Department to the Housing Revenue Account, which reflects a more accurate assessment of the cost of services provided. This will contribute to the Department’s Spending Review 4 savings.

6. Planning, Transportation and Economic Development

6.1. The division is forecasting a balanced budget outturn. There are pressures on income budgets (including parking, planning and advertising), which are being managed by income from bus lane enforcement and by controlling expenditure budgets.

7. Tourism, Culture & Inward Investment

7.1. Following the realignment of budgets in period 3 to deal with the Markets income pressure, the division is forecasting a balanced outturn.

8. Neighbourhood & Environmental Services

8.1. Accounting changes between the General Fund and Housing Revenue Account have identified £209k savings for the department and will contribute to Spending Review 4 savings.

9. Estates & Building Services

9.1. The Division has adopted the corporate landlord model and reorganised the budgets reflecting the new organisational structure. For the current year, a balanced outturn is now forecast.

9.2. The budget assumes that shops currently being managed by the HRA will transfer to the general fund. This has now happened. As a consequence, the division’s budgets have been reduced to reflect net income of £623k arising from shop rents.

10. Housing General Fund

10.1. The General Fund Housing Service is forecasting a balanced outturn, however the Homelessness Service continues to face recruitment challenges, as the introduction of the Homelessness Reduction Act increases demand for front-line staff. A recruitment process is currently underway for 5 FTE Homelessness Prevention Officers.

10.2. The service has benefited from additional ring-fenced grants during the year to prevent homelessness, which are being spent to reduce rough-sleeping and provide easily accessible early prevention.

11. Housing Revenue Account

11.1. The Housing Revenue Account (HRA) is a ring-fenced income and expenditure account relating to the management and maintenance of the Council's housing stock. The HRA is forecast to underspend by £1.1m, excluding revenue used for capital spending (which is reported through capital monitoring).

11.2. Income is forecast to be £0.3m higher overall than the budget. An additional £0.1m income is expected from hostels operating at full capacity and an improved bad debt position suggests that £0.6m can be released from the bad debt provision. Offset against these, in-year rental income from dwellings is expected to be £0.4m below budget, a variance of 0.5%.

11.3. As reported at Period 3, unplanned lift refurbishment work and maintenance of the district heating network will cost £0.4m. A further £0.2m will now be spent this year on preventative maintenance work to the pipework entering blocks of flats. Due to the large number of repair jobs undertaken so far this year, a £0.1m overspend on materials is forecast. These total £0.7m of extra costs.

11.4. Management and Landlord Services are projected to overspend by £0.1m. There will be costs of £0.4m to compensate tenants moving from Goscote House, an increased cost of £0.2m for contributions towards General Fund services as described above, and £0.1m associated with electricity costs. Offsetting these, an underspend of £0.6m will arise from holding vacancies across the service.

11.5. Savings of £1.6m will be made in 18/19 on capital financing costs, of which £0.8m will be one off. The reasons for this are explained in paragraph 15.3.

Adult Social Care

12. Adult Social Care

12.1. The department is forecasting to spend £104m as per the budget.

12.2. The most significant item since the first quarter's report is the notification by the CCG they are revisiting the health funding element awarded to a number of jointly funded packages of care. This is as a result of the CCG requesting that their Commissioning Support Unit (CSU), who took over the contract from the previous provider in April 2017, re-assess existing cases to ensure that any health funding awarded is in line with national guidance. A number of cases have been identified to us where the CSU review has identified that health funding should be withdrawn. We are working with the CCG to review these assessments jointly and agree a way forward. On an annual basis the impact could be a reduction in our joint funded income of nearly £2m.The final impact has yet to be finalised for 2018/19.

12.3. Notwithstanding the potential reduction in income the department is still forecasting to remain within the budget as a result of a one-off staffing savings and in year savings from the Independent Living Floating Support service which will cease from 31 March 2019 following an Executive decision on 1 August. Full year savings will contribute to corporate spending review targets.

Health Improvement & Wellbeing

13. Public Health & Sports Services

13.1. The department is forecasting to spend £20.5m as per the budget.

13.2. The budget of the department will be reduced by £0.5m. This is following a change in VAT treatment of sports services' income after a legal judgement. This change means the Council is no longer required to pay over 20% of the income to HMRC.

Education and Children's Services

14. Education and Children's Services

14.1. The department is forecasting to spend £59.6m as per the budget. The significant pressures in social care and transport reported in the first quarter's revenue report remain. These are being dealt with this financial year by using one off departmental funds as planned in the budget.

14.2. The number of looked after children stood at 677 at the end of September, a reduction of 5 since the beginning of the year. High cost external residential placements have reduced from 40 at the beginning of the year to 36 at the end of September. However, placements with independent fostering agencies have increased (from 98 to 111) because of insufficient suitable internal foster carers being available. Work is ongoing to increase the number of internal foster carers.

14.3. The new Functional Family Therapy Child Welfare team and MST Child Abuse and Neglect teams became operational in September. The success of these teams alongside the existing ones is key to achieving savings in placement costs.

14.4. Existing home to school and contact transport arrangements have been reviewed for all existing LAC, and tighter controls put in place for new transport requests. As a result expenditure this year is forecast to be less than last year, however there remains an ongoing budget pressure.

14.5. Home to school transport cases for SEN children remains a significant issue and all cases are being reviewed to ensure they meet the existing policy criteria.

14.6. In 2018/19 the High Needs Block (HNB) allocation of £45.1m is £2.8m less than the planned expenditure and this will be funded from DSG reserves as planned. A review of centrally provided SEND services paid from the HNB is currently being completed and will report back shortly.

Corporate Items & Reserves

15. Corporate Items

15.1. The corporate budgets cover the Council's capital financing costs, items such as audit fees, bank charges and levies. At present we are forecasting a £10.5m underspend.

15.2. Corporate budgets are showing a £2.4m underspend largely due to spending review savings achieved in year. The spending review savings will be transferred to earmarked reserves as part of the managed reserves strategy, and be available to support the 2019/20 budget.

15.3. Significant savings are forecast in respect of capital financing. Historically the Council has borrowed to fund part of the capital programme. When the Council borrows it is required to set money aside to repay the debt annually, in line with our minimum revenue provision policy. In November 2015, the Council approved a new policy, that was more in line with an asset's life, and which would generate savings of around £6m to £7m per year. However, in subsequent budgets, Council decided to delay implementing this policy until required by the budget position (in effect, the saving arises through paying off debt more slowly). It is now intended to implement the policy with effect from 2018/19, which creates a substantial saving to support the managed reserves strategy. This helps us to balance the budget for future years. Additionally, the Council has purchased pooled property funds to the value of £8.2m in line with the treasury strategy. This helps us diversify our investment strategy and achieve better returns. Perversely, these investments require a charge to be made to the Council's accounts (some types of investment do not). We can do this by using sums paid in excess of minimum revenue provision in earlier years. When the units are eventually sold, the money will be set aside again for debt redemption.

15.4. In May the Council repaid a loan of £51m, in an exercise to save money. This is generating a saving in 18/19 of £0.9m for the General Fund (falling to £0.3m in 19/20) and £1.1m for the HRA (falling to £0.3m in 19/20).

15.5. In addition to the above interest received on investments is higher than budgeted, forecasting to generate additional income of £0.9m to the Council. This is due to an increase in interest rates and higher cash balances than anticipated. The higher cash balances are mainly due to factors such as council tax, government grants being received before costs are incurred.

APPENDIX C

Spending Review Savings

As members are aware, the Council needs to achieve substantial savings to live within its means in future years. The key means by which we seek to achieve these is the spending review programme. The current round has been termed Spending Review 4.

The table below lists the savings achieved for which it is now sought to make budget reductions.

Description of Saving	Department	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Information Services-Savings from IT Contracts	Corporate Resources	0	750	882	899
Staffing efficiency review of museums	TCII	100	100	100	100
Shopmobility- Increase in donations to purchase equipment	PTD	15	15	15	15
		115	**865**	**997**	**1,014**