

**Cabinet**

3 September 2013

**Report of the Cabinet Member for Finance, Performance and Customer Services**

**2013-14 Finance Monitor 1**

**Purpose**

1. The purpose of this report is to provide details of the headline financial performance issues for 2013-14, covering the period 1 April 2013 to 30 June 2013. The report assesses performance against budgets, progress of the council's savings programme, the council's revenue reserves and provides Members with an update on localisation of business rates.

**Summary**

- The council is identifying early financial pressures totalling £3,722k across all directorate budgets. This is a position that has occurred in some previous years.
- Extensive work is being carried out to ensure these pressures are mitigated by the end of the financial year to ensure that expenditure is contained within budget.

**Overview**

2. The council's net General Fund budget for 2013-14 is £127,778k.
3. Following on from the £11m savings programme in the 2012-13 budget, the 2013-14 budget required a further challenging £8,822k in savings in order to reach a balanced position. The forecasts outlined in this report reflect a prudent view of how that challenge is currently being met.
4. Early forecasts indicate that the council faces financial pressures of £3,722k. An overview of this forecast, on a directorate by directorate basis, is outlined in Table 1 below. The key pressures can be summarised in the following paragraphs.

5. Children's Services, Education & Skills – an increase above forecasts in the number of children under the care of the council further and the complexity of those cases contributes to the pressure.
6. City & Environmental Services – numerous issues across the Highways, Waste & Fleet service plan including reduced income and unachievable prior year savings.
7. Communities & Neighbourhoods – a number of pressures most notably unachievable prior year savings.
8. Health & Wellbeing - continued increasing demographic pressures in adult social care are causing significant issues.

<b>Directorate</b>	<b>2013/14 Net Budget</b>	<b>2012/13 Outturn</b>	<b>Forecast Pressures</b>
	£'000	£'000	£'000
Children's Services, Education & Skills	19,277	+295	+1,138
City & Environmental Services	11,581	+998	+523
Communities & Neighbourhoods	11,037	-137	+459
Customer & Business Support Services	15,626	-285	-
Health & Wellbeing	51,986	+2,083	+1,602
Office of the Chief Executive	3,007	-3	-
<b>DIRECTORATE BUDGETS</b>	<b>112,514</b>	<b>+2,951</b>	<b>+3,722</b>
Central Budgets	15,264	-3,035	-
<b>GROSS BUDGET</b>	<b>127,778</b>	<b>-84</b>	<b>+3,722</b>

Table 1: Finance Overview

9. Directorates are identifying strategies that will mitigate these pressures in order to contain expenditure within budget by the end of the financial year. As strategies are identified, the reported forecast will be amended accordingly in line with the council's stringent financial monitoring processes. This course of action has been successful in previous years.
10. It should be noted that a similar level of financial pressures were reported at Monitor 1 in 2012-13 and whilst the challenge of delivering the scale of savings and identifying one off mitigation strategies becomes considerably tougher, continued determination to control costs from teams across the

council should see an improved position as the financial year progresses. Corporate Management Team monitor the financial position of the council on a monthly basis and should the financial pressures not reduce sufficiently, or proposed mitigation strategies not deliver the improvement required, escalation of the issues will be raised by the Director of Customer & Business Support Services to Members outside of the standard reporting schedule. The next report before Cabinet will be the Monitor 2 report on 5 November 2013.

## **Directorate Financial Performance**

11. The following sections provide further information on the financial outturn of each directorate as outlined in Table 1 above.

### Children's Services, Education & Skills

12. The Children's Services, Education & Skills directorate is reporting early financial pressures of £1,138k, mainly due to unachieved savings.
13. Despite a reduction in the number of Looked After Children (LAC) and a reduction in expenditure of almost £1m compared to 2012-13, the underlying budget pressure from previous years and unachieved budget savings of £700k result in this forecast overspend.
14. The Children's Services Management Team are committed to containing expenditure within their budget for 2013-14 and are therefore exploring the following options to further mitigate the current overspend projection:
  - Review all high cost LAC and SEN placements with a view to negotiating lower rates with providers.
  - Review all 2014-15 savings proposals with a view to stretching and implementing as many as possible earlier in the 2013-14 financial year.
  - Explore the feasibility of increasing charges to the Dedicated Schools Grant.
  - Continue to review the business case, costs and charging arrangements of all services provided to schools.
  - Continue to hold recruitment to vacant posts wherever possible and safe to do so.

### City & Environmental Services

15. The City & Environmental Services directorate is reporting financial pressures of £523k.

16. A number of pressures exist across the Highways, Waste & Fleet service plan (£948k). The major reason for the shortfall is due to delays in implementing the savings surrounding Waste Services (£405k). Significant savings relating to round rationalisation, changes to operations at Household Waste sites, changes to garden waste and new charges for replacement bins were agreed in the last budget. These have now either been implemented or in the process of implementation however later in the year than initially required. There also remains a shortfall in Commercial Waste income of £104k despite £100k growth in the 2013-14 budget. This is due to a reducing customer base as the Council is often priced higher than its competition. Savings from previous years (£227k), including those related to agency staff and terms and conditions, continue to cause a budget problem however the position has improved and work is ongoing to mitigate this further.
17. Elsewhere in the directorate, there is a £283k shortfall in Parking income, however this is offset by savings on the cost of Concessionary Fares passes.
18. In a change to previous years, where the economic downturn had a negative impact on income budgets, the development and building control services are not predicting any pressures at this time.
19. The directorate has to date identified £470k of mitigating actions including staff savings and usage of additional funding and income.

#### Communities & Neighbourhoods

20. The Communities & Neighbourhoods directorate is forecasting early financial pressures of £459k. Included in this sum is estimated redundancy costs of £329k incurred as a result of delivering savings primarily within Smarter York and Libraries service.
21. There remains a small level of prior year savings that require mitigating totalling £167k. Work is ongoing to reduce this level further.
22. The main areas of overspend are within Smarter York (£167k) due to redundancies (£65k) and delays in the delivery of savings (£70k). There is also a forecast overspend of £131k in Parking services of which £83k relates to a lower than required level of Penalty Charge Notices and £40k redundancies.
23. Underspends totalling £151k across Housing and Community Safety offset the pressures above which relate to higher than forecast income levels at

the Crematorium, Registrars service and underspends across housing services.

24. The Directorate is considering options as to how this overspend can be mitigated in order to bring spend back in line with budget.
25. The car park at Peel Street became a private sector responsibility from 15<sup>th</sup> May 2013. As a result the council loses the income and expenditure related to operating the car park. As these budgets are in separate Directorates it is necessary to vire the expenditure budget from Communities and Neighbourhoods (£100k) to offset the lost income within City and Environmental Services. Given the scale of the budget transfer this requires approval from Cabinet.

#### Customer & Business Support Services

26. The Customer & Business Support Services is currently projecting that it will outturn on budget. The directorate will continue to try and identify other underspends which could assist in mitigating the council wide position.

#### Health & Wellbeing

27. In Adult Social Services, demographic pressures continue to be evident in relation to demand for care, despite significant investment of £2.5m in the 2013-14 budget. At present, forecasted pressures include demographic pressures (£386k), a continued increase above forecast level in the number of customers taking up Direct Payments (£360k) and use of external placements for emergency and short term breaks (£243k).
28. A number of unachieved budget savings also contribute to the forecasted pressure including reablement (£300k), Elderly People's Homes reconfiguration (£175k) and the Night Care team (£113k).
29. A number of other minor pressures are offset by a significant forecasted underspend on External Residential Care (£434k) due to a lower number of required placements than anticipated.
30. The Public Health grant for 2013-14 is £6.641m and there is currently a forecast surplus of £458k. It is proposed that £250k of this will be used as mitigation against overspends in adult social care where there are elements that can be funded by the public health grant, particularly around prevention work. The remaining surplus is a contingency for continuing uncertainties around the transferred contracts from the PCT. In addition to this there is a general fund budget for public health of £826k which is primarily for sport and active leisure and some Drug and Alcohol Action

Team functions. No significant variations to this budget are currently expected.

31. The Adult Services Management Team are committed to containing expenditure within their budget for 2013-14 and are therefore exploring the following options to further mitigate the current overspend projection:
- Consider whether up to £500k of housing related expenditure within supported living and preventative services budgets can be charged to the Housing Revenue Account thereby generating a General Fund saving.
  - Undertake a thorough review of the most expensive care packages (top 200), with a view to exploring all options for delivery of the required care at a lower cost.
  - Review the level of, and secure additional, continuing health care contributions where appropriate.
  - Review all 2014-15 savings proposals with a view to stretching and implementing as many as possible earlier in the 2013-14 financial year.
  - Continue to hold recruitment to vacant posts wherever possible and safe to do so.

#### Office of the Chief Executive

32. The Office of the Chief Executive directorate is currently forecasting that it will contain expenditure within budget. As with CBSS, the directorate will continue to try and identify other under spends which could assist in mitigating the council wide position.

#### Corporate Budgets

33. These budgets include Treasury Management activity and other corporately held funds. At present, it is anticipated that there will be no variation to budget in these areas.

#### Dedicated Schools Grant

34. In the DSG area there are no variations to report against the budget of £115,300k.

#### Housing Revenue Account (HRA)

35. There is an estimated underspend in the HRA of £195k, which is due to number of variations across the service.

## **Localisation of Business Rates**

36. 2013/14 is the first year of the new localised business rates system. Members are reminded that the council has:
- an individual business rates baseline of £45.1m (essentially its share of an income target),
  - a tariff to pay of £21.9m (due to the fact that the Government thinks the individual business rates baseline is more than we need) and therefore a baseline funding level of £23.2m.
  - to pay a levy of 49% on any growth above this baseline meaning only 25.5p in the pound is retained locally. As the council is in the Leeds City Region (LCR) rates pool, any levy will be paid to the pool rather than to the Government.
37. The council is currently prudently forecasting a nil variance against its baseline funding level. This is primarily due to uncertainty over prior year (pre system) ratings appeals that it is now responsible for. In terms of the LCR pool, other member authorities are also reporting similarly prudent positions to York.

## **Reserves**

38. The February 2013 Budget Report to Council stated that the minimum level for the General Fund reserve should be £6.4m (or 5% of the net budget). As part of that report, it was also agreed that a total of £450k was added to the reserve to provide an appropriate and prudent level of headroom. The anticipated year end balance, assuming none is used during the year, is £6.8m.
39. Members have to be mindful that any overspend would have to be funded from this reserve reinforcing the need to contain expenditure within budget. Should this happen the Director of Customer & Business Support Services would have no option but to recommend to Council that the reserve is reinstated to at least its minimum required level which would have implications on future budget setting cycles.

## **Performance**

40. As a result of the process of consolidating the performance function in the Council, an opportunity has arisen to introduce a new business planning cycle. This cycle will enable twice yearly performance reporting where for the first time, all performance data will be up to date. Currently some data can be a few weeks old. By being able to provide 'live' data, Cabinet and residents will be able to compare financial and performance data over exactly the same timeframe. In order to support the reporting of more

meaningful 'outcomes' a comprehensive review of indicators is also underway. The new performance reporting will be at the end of Quarter 2 and at Year End.

41. Two detailed summaries of performance have been presented in the last three months and the first new report will be issued in 3 months time. However, given the priority that Cabinet attach to supporting the city economy, there are some headlines reported here.
42. The city's economy remains increasingly competitive. The recent publication of the Municipal Journal and Local Futures' Inward Investment Guide to England put the city as one of the top five places for businesses to invest, and recent data shows that the proportion of workers employed in the private sector is increasing. They were at the lowest on record in 2010 at 66.8%, the latest data indicates this figure now stands at 73.2%. The last two years have seen a 5.1 percentage point increase in private sector employment, compared to regional and national figures of 1.1 and 1.6 respectively.
43. Latest figures show that employment is at 75.1% a fall of 0.8% over the quarter (Source: Annual Population Survey, April 2012 to March 2013). This data covers Q4, where an increase in unemployment is normal due to seasonal factors and also an increase in the economically inactive, where the number of people not wanting a job has increased. York's employment rate is ranked 8<sup>th</sup> out of 64 UK cities in Quarter 4.
44. Long term youth unemployment (16-24 year-olds) has seen a reduction in Quarter 1 to 0.3%, well below the national and regional figures (currently 0.9% and 1.4%).

### **Analysis**

45. The analysis of the financial position of the council is included in the body of the report.

### **Consultation**

46. There has been extensive consultation with Trade Union groups on the ongoing implications of the council's financial situation.

### **Council Plan**

47. The information and issues included in this report demonstrate progress on achieving the priorities set out in the Council Plan.



## **Implications**

48. The implications are:

- Financial - the financial implications are dealt with in the body of the report.
- Human Resources - there are no specific human resource implications to this report.
- Equalities - there are no specific equality implications to this report, however equalities issues are accounted for at all stages of the financial planning and reporting process.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no specific crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property - there are no property implications to this report.
- Other - there are no other implications to this report.

## **Risk Management**

49. The risk management processes embedded across the council continue to contribute to managing the risk issues associated with major projects and key areas of service delivery.

## **Recommendations**

50. Members are asked to:

- a. Note the current projected pressures of £3,722k and note that strategies are being prepared to mitigate this position.
- b. Approve the virement of £100k between directorates as set out in paragraph 25 of the report.

Reason: In order to ensure expenditure is kept within budget.

<b>Authors:</b>	<b>Cabinet Member and Chief Officer Responsible for the report:</b>		
Debbie Mitchell Corporate Finance Manager Ext 4161  Andrew Crookham Principal Accountant Ext 2912	Cllr Dafydd Williams, Cabinet Member for Finance, Performance and Customer Services  Ian Floyd Director of Customer & Business Support Services		
	<b>Report Approved</b>	√	<b>Date</b> 21 August 2013
<b>Wards Affected: All</b>			
<b><i>For further information please contact the authors of the report</i></b>			

Background Papers – None

Annexes - None