

SUPPLEMENTARY 1



THE CABINET

Tuesday, 6 July 2010

**Agenda Item 9a 2010/11 Budget Monitoring Report - April to May
2010 (Pages 1 - 13)**

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THE CABINET

6 July 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

This report is submitted under Agenda Item 9. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order for the cabinet to be updated on the Council's latest financial position

Title: 2010/11 Budget Monitoring Report – April to May 2010	For Decision
<p>Summary</p> <p>This report provides the Cabinet with a first indicative picture of the Council's revenue and capital position for 2010/11.</p> <p>The council started the 2010/11 financial year in a better financial position than twelve months ago with General Fund (GF) balances estimated at £8.1m, and a robust budget process to set meaningful 2010/11 budgets.</p> <p>Central Government has already indicated that nationally local government will need to contribute £1.165bn toward the £6.2bn of in-year savings. The specific impact on the council is a reduction in funding of up to £5.5m. In order to protect the council's position the Corporate Director of Finance and Commercial Services has instructed the council to continue with the measures put in place during 2009/10 to contain spend. In addition, each department has been tasked with identifying specific savings to mitigate this loss of resources.</p> <p>In relation to monitoring the 2010/11 budget officers have worked on identifying recurring pressures from last year, new pressures and risks to anticipated 2010/11 savings. Initial current service pressures (not taking account of any in-year savings required) are estimated at £3.1m. The 2010/11 budget includes a £3m contribution to GF balances. If these service pressures materialise then General Fund balances would not increase to the targeted £10m but remain at the current £8m.</p> <p>The Housing Revenue Account (HRA) is projected to incur a deficit of £862k. Its balance declining from £3.4m to £2.6m. The HRA is a ring fenced account and cannot make contributions to the General Fund.</p> <p>In regard to the Capital Programme, the current projection is that spend will be to budget. Capital budgets cannot contribute to the General Fund although officers are working to ensure that all appropriate capitalisations occur.</p> <p>Wards Affected: All wards.</p>	
<p>Recommendations</p> <p>The Cabinet is asked to:</p> <ol style="list-style-type: none"> Note the current projected position for 2010/11 of the Council's revenue and capital budget as detailed in sections 3 and 5 of the report and Appendices A and C; 	

2. Note the position for the HRA as detailed in section 4 of the report and **Appendix B**;
3. Note that the Corporate Director of Finance and Commercial Services had imposed mechanisms to reduce in-year expenditure, and set targets for departments to contribute towards the reduced resources the Council will receive in-year;
4. Approve the draw down of
 - a. £250k from the IT Reserve to support Oracle Financial systems development during 2010/11 (para 3.1.5)
 - b. £120k from contingency to the internal audit budget to allow the necessary work to be undertaken by the Head of Internal Audit in order to give its statutory opinion (para 3.1.5)
 - c. £100k from the IFRS Reserve to support the development of the required new financial reporting regime (para 3.1.5)

Reason

As a matter of good financial practice, the Cabinet should be regularly updated with the position on the Council's budget. In particular, this paper alerts Members to particular efforts to reduce in year expenditure in order to manage the financial position effectively.

Implications

Financial:

This report indicates the early assessment that the council will face significant pressures in remaining within its original 2010/11 budget. This is before reduced resources arising from the Governments in-year actions to reduce the national deficit. The Corporate Director of Finance and Commercial Services has already implemented actions to control spend and set departments savings targets to contribute towards the reduced resources.

Legal:

In previous reports to Cabinet (previously titled the 'Executive') legal comments have set out the Council's obligations in relation to budget management and the powers and duty vested in the Section 151 Officer (Corporate Director of Finance and Commercial Services). A summary of the overriding considerations is set out below to assist the new administration.

A billing authority is required to set a balanced budget each year by virtue of section 32 Local Government Finance Act 1992 taking account of required expenditure, contingencies and reserves among other things. Section 43 makes corresponding provision for major precepting authorities. Those sections require the relevant authorities to set an 'appropriate' level of reserves for the year in question. The reserves may be drawn upon during the year even if as a result they fall below the minimum.

It is for local authorities to determine what they consider to be an appropriate level of reserves. CIPFA has advised that each authority should determine what is a prudent level of reserves based upon their own circumstances, risks and uncertainties. The Section 151 Officer has confirmed the appropriate target level of reserves in this report as £10m for the Council and has also identified the anticipated pressures.

Going forward the Council has an ongoing duty under section 28 Local Government Act 2003 to keep its financial position under review and if it appears that there has been a deterioration in its position it must take such action as it considers necessary to deal with

the situation. Members will note that while the Section 151 Officer has reported that the Council successfully came in under budget at the end of the last financial year she has identified anticipated pressures in year of £3.1m even before required savings. The report highlights the source of these pressures and where action is required. Over the coming financial year Members will wish to satisfy themselves that appropriate and effective actions are being taken to avoid forecast pressures being realised and to meet savings targets imposed in year by central government.

Members will note that capital funds and HRA funds cannot contribute to the General Fund.

Earlier reports also referred to the duty of the Section 151 Officer to issue a notice under 114 Local Government Finance Act 1988 that no financial expenditure take place without her express authorisation if it appears to her that the expenditure incurred by the authority (including proposed expenditure) in a financial year is likely to exceed the resources (including sums borrowed) available to meet that expenditure. Should the financial position so deteriorate in year then the section 151 Officer will have regard to this power.

Contractual:

No specific implications.

Risk Management:

The final financial position for 2009/10 is still subject to review by the external auditor and is therefore at risk of change.

The risk to the Council is that if the currently projected overspends are not eliminated the level of balances will fall to a level which is below the level recommended by the Corporate Director of Finance and Commercial Services in order to meet potential future financial risks.

Staffing:

As part of the measures to reduce in-year pressures a freeze on recruitment has been implemented. Recruitment will be limited to essential appointments only and overtime payments will be minimised.

Customer Impact:

As far as possible all restraints have been placed on non-essential services spend. Some cuts may directly or indirectly affect customers but every effort will be made to mitigate any impact on front line services.

Safeguarding Children:

No specific implications

Crime and Disorder:

No specific implications

Property/Assets:

Some non-essential maintenance to properties may be re-phased.

Options Appraisal:

Not applicable.

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1. Background

- 1.1 The Outturn report to Cabinet on 8 June 2010 reported that, as at 31 March 2010, general fund balances stood at £8.1m, an increase of £4.4m on the position twelve months earlier. This position is subject to review by external audit and therefore may change prior to the finalisation of the accounts in September.
- 1.2 This report provides an initial summary of the Council's revenue and capital position and consequent balances based on recurring pressures from last year, new pressures, and risks to anticipated 2010/11 savings.
- 1.3 It is important that the Council regularly monitors its revenue and capital budgets to ensure good financial management. It is now practise within the Council for this monitoring to occur on a regular monthly basis through both monthly briefing to the Cabinet Member for Finance, Revenues and Benefits, and this report to Cabinet. This helps Members to be regularly updated on the Council's overall financial position and to enable the Cabinet to make relevant decisions as necessary on the direction of both the revenue and capital budgets.
- 1.4 The report is based upon the core information contained in the Oracle general ledger system supplemented by examination of budgets between the budget holders and the relevant Finance teams. At this early stage in the year the review is focussed on the known major risk areas. In addition, for capital monitoring there is the work carried out by the Capital Programme Management Office (CPMO).

2 Current Position

- 2.1 The impact of the current revenue projections to the end of the financial year is that the Council's General Fund balance will not increase by the anticipated £3m but remain at the current level of £8m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances. Actions have already been put in place to reduce the Council's cash out-goings.
- 2.2 In the report to Members regarding the setting of the 2010/11 annual budget and Council Tax, the Corporate Director of Finance and Commercial Services, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003, set a target GF reserves level of £10m. The current projected balance for the end of the financial year is below this level. Whilst the external auditor has not offered an opinion on a minimum acceptable level of general balances the Local Government Act 2003 requires the Authority to set an appropriate level of reserves.

When setting the HRA budget for 2010/11 the surplus anticipated for 2009/10 was £3.392m leading to estimated balances as at 31 March 2011 of £4.369m. The final 2009/10 outturn surplus was £2.423m giving the current opening balance of £3.4m.

	Balance at 1 April 2010	Projected Balance at 31 March 2011	Target Balance at 31 March 2011
	£000	£000	£000
General Fund	8,065	7,968	10,000
Housing Revenue Account (including Rent Reserve)	3,400	2,538	4,369

- 2.3 The current projected variance at the end of the year across the Council for the General Fund is shown in the table below.

	May Projected Variance £000
<u>Service Expenditure</u>	
Adult and Community Services	0
Children's Services	2,030
Customer Services	967
Resources	100
Finance & Commercial Services	0
General Finance	0
Total Service In-Year Pressures	3,097
<u>Corporate Issues</u>	
Budgeted contribution to balances	3,000
Total In-Year Pressures	97

- 2.4 Additional to the risks identified in the tables above are other pressures where the financial consequence is not yet known and where Directors and Head of Services are attempting to manage the issues. If, however, these pressures come to fruition either wholly or in part, then the financial position will worsen.

3 General Revenue Services

- 3.1 The initial departmental positions, are shown in Appendix A. The key areas of potential overspend and risk are outlined in the paragraphs below.

3.1.1 Adult and Community Services

The Adult and Community Services budget position at the beginning of the new 2010/11 financial year is challenging. At this early stage of the year the Department is projecting a broadly break-even budget position for year end, although end of year projections based on two months activity are premature and difficult to quantify with any degree of certainty at this stage.

Budgets reflect savings decisions made last year as part of the Council Tax setting process, which amounted to reductions of £4.65m from the Adult and Community Services Budget. Progress against delivery of these savings will be reported throughout the year.

The Department and its Management Team have a track record of dealing with issues and pressures throughout the year to deliver a balanced budget.

3.1.2 Children's Services

Early indications are that Children's Placements are facing an overspend (currently projected at £1.5m). The Leaving Care asylum grant shortfall (£80k) and Emergency Duty team employee overspend (£150k) are two further quantified risk areas. Transport and apprenticeships are other risk areas to be evaluated. The DSG is projecting a £300k overspend in relation to Catering staff costs.

3.1.3 Customer Services

The Department's financial position at the end of May indicates some early budget pressures arising in employment costs and a shortfall in income. The directorate is currently developing a robust action plan to manage key risk areas and this will be in place by the end of June. However, if the current trend in employment costs and income continues unchecked, the initial full year forecast indicates a potential overspend of £0.9m at this stage.

3.1.4 Resources

At this early stage of the year the department is projecting that it will be able to broadly deliver its services within its approved working budget. However some services are already experiencing some early budget pressures, but as these are known work has already commenced by both the Departmental and the Divisional Management teams to ensure that overall spend is kept within the cash limited budgets.

There is a current pressure within the Legal service regarding the use of locum lawyers during the first few months of 2010/11. If these additional costs are not addressed urgently then an overspend will arise, which at this stage could amount to £100k. The Legal service is aware of this issue and is producing an action plan to ensure it delivers its service within budget.

3.1.5 Finance & Commercial Services

At this early stage of the year the department is projecting that it will be able to broadly deliver its services within its approved working budget. However some services are already experiencing some early budget pressures, but as these are known work has already commenced by both the Departmental and the Divisional Management teams to ensure that overall spend is kept within the cash limited budgets.

The delivery of the Finance division's 2010/11 service plan includes some expenditure on systems development that is to be funded from the IT reserve which was created and set aside to fund these improvement works. Cabinet is asked to agree a budget adjustment of £250k from the IT reserve which will have no overall impact on the 2010/11 budget.

When the 2010/11 budget was set in February 2010 it included a sum set aside in contingency to cover any budget risks. There is currently a budget risk owing to an

insufficient audit budget to allow the necessary audit work to be undertaken by the Head of Internal Audit in order to give its statutory opinion. As a result it is necessary to allocate £120k from contingency to fund the Council's statutory audit work.

As a result of statutory changes the council is required to base its 2010/11 accounts on International Financial Reporting Standards (IFRS). In order to meet this new statutory change a drawdown of the £100k reserve created to support this is required. This will have no overall impact on the 2010/11 budget.

3.1.6 General Finance

At this early stage in the financial year the General Finance service is projecting to remain within its budget in 2010/11. As part of setting a robust 2010/11 budget the council agreed a contingency budget of £6m. £3.5m was allocated from contingency by Cabinet on 8 June leaving a balance of £2.5m. This report recommends the drawdown of £120k reducing the contingency to £2.4m.

4 Housing Revenue Account (HRA)

4.1 The HRA is currently projecting a overspend of £862k. The main reasons for this include:

- Dwelling Rents is showing signs of over-achieving budget due to the reduction in voids loss. This was a promised benefit from the introduction of the Housing Modernisation Programme.
- Supervision and Management costs during the year are projected to overspend by £911,000. There are three reasons for this prediction: -
 - (i) The Tenancy Services Review completed in 2009/10 failed to deliver savings to the extent we estimated during the budget process (£161k).
 - (ii) This also applies to Security Savings (£400k)
 - (iii) The 2009/10 closure process also uncovered a previously unbudgeted Leaseholder Insurance Premium (£350k)

4.2 The detailed HRA position is shown in Appendix B.

5 Capital Programme

5.1 At this early stage in the year, it is expected that the outturn will be matched to the budget for 2010/11.

5.2 The completion of capital projects on time and on budget not only supports the Council's drive to excellence through its Use of Resources score but will also ensure that the benefits arising from our capital projects are realised for the community as a whole.

6 Consultees

The following were consulted in the preparation of this report:

Councillor Geddes, Cabinet Member for Finance, Revenues and Benefits
Corporate Management Team
John Hooton, Strategic Finance Controller

Lee Russell, Finance Manager – Resources
Steve Whitelock, Finance Manager - Adult and Community Services
Kathy Freeman, Finance Manager – Children’s Services
Mark Taylor, Interim Finance Manager - Customer Services
Winston Brown, Legal Partner – Corporate Law and Employment
Capital Programme Management Office (CPMO)

7 Background Papers Used in the Preparation of the Report
- Oracle reports

8 List of Appendices

Appendix A – General Fund Revenue Budget Monitoring Statement –May 2010

Appendix B – Housing Revenue Account (HRA) Budget Monitoring Statement –
May 2010

Appendix C – Capital Programme Budget Statement – May 2010

REVENUE MONITORING STATEMENT - MAY 2010/11

SERVICES	2010/11				
	Provisional Outturn 2009/10	Original Budget	Working Budget	Projected Outturn	Projected Variance
	£'000	£'000	£'000	£'000	£'000
<u>Adult & Community Services</u>					
Adult Care Services	5,451	5,340	5,340	5,340	-
Adult Commissioning Services	44,371	45,722	45,722	45,722	-
Community Safety & Neighbourhood Services	3,303	4,119	4,119	4,119	-
Community Cohesion & Equalities	7,461	8,130	8,130	8,130	-
Leisure & Arts	6,443	6,053	6,053	6,053	-
Other Services	512	616	616	616	-
	67,541	69,980	69,980	69,980	-
<u>Children's Services</u>					
Quality & Schools Improvement	6,711	9,197	9,197	9,192	- 5
Integrated Family Services	593	1,694	1,694	1,692	- 2
Safeguarding & Rights Services	36,248	31,545	31,545	33,275	1,730
Children's Policy & Trust Commissioning	1,408	6,597	6,597	6,596	- 1
Skills, Learning and Enterprise	1,712	4,366	4,366	4,366	-
Other Services	7,623	6,885	6,885	6,893	8
	54,295	60,284	60,284	62,014	1,730
<u>Children's Services - DSG</u>					
Schools	- 2,948	- 14,320	- 14,320	- 14,320	-
Quality & Schools Improvement	7,944	10,920	10,920	10,920	-
Integrated Family Services	2,899	1,560	1,560	1,560	-
Safeguarding & Rights Services	140	-	-	-	-
Children's Policy & Trust Commissioning	1,562	1,070	1,070	1,370	300
Skills and Learning	423	770	770	770	-
Other Services	54	-	-	-	-
	10,074	-	-	300	300
<u>Customer Services</u>					
Environment & Enforcement	21,410	19,520	19,520	20,487	967
Housing Services	939	4,616	4,616	4,616	-
Revenues & Benefits	3,723	1,214	1,214	1,214	-
Barking & Dagenham Direct	- 15	- 500	- 500	- 500	-
	26,057	24,850	24,850	25,817	967
<u>Resources</u>					
Chief Executive	458	60	60	60	-
Director of Resources & Business Support	- 506	412	412	412	-
Legal & Democratic Services	949	1,062	1,062	1,162	100
ICT & eGovernment	- 153	- 414	- 414	- 414	-
Human Resources	- 342	- 181	- 181	- 181	-
Strategic Asset Management/Capital Delivery	3,747	1,982	1,982	1,982	-
Corporate Management	5,205	5,411	5,411	5,411	-
	9,358	8,332	8,332	8,432	100
<u>Finance & Commercial Services</u>					
Finance	741	- 144	- 144	144	-
Performance Improvement	? -	- 164	- 164	164	-
Regeneration & Economic Development	4,379	5,477	5,477	5,477	-
	5,120	5,169	5,169	5,169	-
<u>Other</u>					
General Finance	- 33,296	- 27,850	- 27,850	- 27,850	-
Contingency	-	6,023	6,023	6,023	-
Levies	7,642	7,983	7,983	7,983	-
TOTAL	146,791	154,771	154,771	157,868	3,097

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HOUSING REVENUE ACCOUNT

Appendix B

REVENUE MONITORING STATEMENT MAY 2010/11

Division=H10 (Housing Revenue Account)

	<i>Full Year Base Budget £</i>	<i>Year to date Base Budget £</i>	<i>Year to date Actual £</i>	<i>Year to date Variance £</i>	<i>Total Commitments £</i>	<i>Projected Outturn £</i>	<i>Variance £</i>
Dwelling Rents	(72,734,853)	(12,122,476)	(12,779,968)	(657,492)	0	(72,783,853)	(49,000)
Non-Dwelling Rents	(2,571,140)	(428,523)	(1,258,334)	(829,811)	0	(2,571,140)	0
Service Charges	(11,807,000)	(1,967,833)	(2,563,192)	(595,359)	0	(11,807,000)	0
Contributions Towards Expenditure	(2,500,000)	(416,667)	0	416,667	0	(2,500,000)	0
R&M	23,831,000	3,971,833	465,718	(3,506,115)	0	23,831,000	0
Supervision & Mgmt	29,435,000	4,905,833	2,761,995	(2,143,838)	0	30,346,000	911,000
Rent Rates and Other	577,000	96,167	0	(96,167)	0	577,000	0
HRA Subsidy Payable	18,384,993	3,064,166	1,933,053	(1,131,113)	0	18,384,993	0
Depreciation	14,170,000	2,361,667	0	(2,361,667)	0	14,170,000	0
Incr in Bad Debt Prov	800,000	133,333	0	(133,333)	0	800,000	0
CDC	811,000	135,167	0	(135,167)	0	811,000	0
RCCO	2,071,000	345,167	0	(345,167)	0	2,071,000	0
Interest Receivable	(467,000)	(77,833)	0	77,833	0	(467,000)	0
In Year	0	(0)	(11,440,727)	(11,440,727)	0	862,000	862,000
Opening Balance	(3,400,000)	(3,400,000)				(3,400,000)	0
Closing Balance	(3,400,000)	(3,400,000)	(11,440,727)	(11,440,727)	0	(2,538,000)	862,000

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APPENDIX C

SUMMARY OF CAPITAL EXPENDITURE - MAY 2010

	<u>Original Budget (1)</u>	<u>Revised Budget</u>	<u>Projected Outturn</u>	<u>Projected Outturn against Revised Budget</u>
<u>Department</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Adult & Community Services	17,606	17,606	17,606	0
Children's Services	80,303	80,303	80,303	0
Customer Services	40,573	40,573	40,573	0
Resources	21,550	21,550	21,550	0
Total for all Schemes	160,032	160,032	160,032	0

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