THE EXECUTIVE

16 February 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

Title: 2009/10 Budget Monitoring Report – April to December 2009	**For Decision**

Summary
The report updates the Executive on the Council's expected revenue and capital outturn position based on the period April to December and projected to the end of the 2009-10 financial year.

The net projected General Fund service overspend before recovery plans is £2.8m. Recovery plans are estimated to reduce this by £2.1m. Net potential corporate risks total £0.7m. Balances would reduce from £3.7m to £2.3m. This is still £5.2m below the target level of balances of £7.5m

Interventions continue in place to reduce expenditure. Should the interventions be unsuccessful in bringing the position back into line, the impact will be that the Council's General Fund balance could fall to an unacceptably low level by the end of the financial year. A review of other reserves is underway to consider transfer to general balances. The concurrent reports on this agenda for the Council Plan/MTFS and for setting the 2010/11 budget have been drafted with a view to addressing the low levels of balances.

The Housing Revenue Account (HRA) is forecast to have a year end working balance (including the Rent Reserve) of £4.4m which includes an in-year contribution to balances of £3.4m. The HRA is a ring fenced account and cannot make contributions to the General Fund.

In regard to the Capital Programme, the current projection is that the year-end outturn position will be £103.6m against a proposed working budget of £105.7m. Directors are currently reviewing the delivery of individual capital schemes to ensure maximum spend within budget is achieved by the year end. Capital budgets cannot contribute to the General Fund although officers are working to ensure that all appropriate capitalisation occurs.

Wards Affected: All wards.

Recommendations

The Executive is asked to:

1. Note the current projected position for 31 March 2010 of the Council's revenue and capital budget as detailed in sections 3 and 5 of the report and **Appendices A and C**;

2. Approve the transfer from specific and ear-marked reserves to the general balance as detailed in paragraph 3.1.6

3. Note the position for the HRA as detailed in section 4 of the report and **Appendix B**;

4. Note that in light of the current potential overspend, departments are continuing work to identify and deliver recovery plans to eliminate overspends;

5. Note that the Corporate Director of Finance and Commercial Services has imposed mechanisms to reduce in-year expenditure;

6. Note potential further actions may be required;

7. Approve the re profiles to capital schemes as detailed in section 5 of the report and **Appendix D**;

8. Approve the revenue and capital virements as outlined in Section 6 of the report;

9. Note the 3rd quarter Financial Health Indicators as detailed in Section 7 and **Appendix E**.

Reason

As a matter of good financial practice, the Executive 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:

The overall revenue budget is indicating potential budget pressures in most of the Council's service departments and corporate matters totalling £1.4m against general fund balances at the start of the financial year of £3.7m.

The capital programme is projected to outturn at £103.6m against the proposed working budget of £105.7m.

Legal:

A detailed overview of the legal implications of the situation facing the council appear in section 6 of the report to the Executive of 22nd December 2009. The comments there also drew attention to the power and duty of the section 151 Officer to issue a notice under section 114 Local Government Finance Act 1988 if among other things 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. This report updates members with the progress made on controlling expenditure. Officers are in this report projecting an over spend without any recovery plans of £2.8m. Recovery plans are estimated to reduce the over spend by £2.1m. Officers have flagged up net potential corporate risks of £0.7m and advise that balances would reduce from £3.7m to £2.3m. This figure is still £5.2m below the target level of balances of £7.5m. The sum of £7.5 m was set as a target level of adequate reserves when the council set the 2009-10 annual budget and council tax. Previous reports have highlighted that pursuant to Local Government Act 2003 a council must set a minimum level of reserves and the Secretary of State has power to specify what this level should be. No such direction has been issued but CIPFA guidance confirms that local authorities should have regard to the level of risk in determining the appropriate level of reserves. Members will wish to satisfy themselves as to the efforts being made to bring the balances to an acceptable level by the end of the financial year and available options should the situation not improve.

Contractual:
No specific implications

Risk Management:
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 not acceptable to meet future financial risks. Low levels of balances are being addressed as part of the 2010/11 budget setting process.

Staffing:
As part of the measures to reduce in-year pressures a freeze on recruitment has been implemented. Recruitment is currently limited to essential appointments only and overtime payments have been reduced.

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 is being made to mitigate any impact on front line services. Should current restraints be ineffective, further restraint may impact on low risk 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 This report provides a summary of the Council's projected revenue and capital position and consequent balances based on the first nine months of the 2009-10 financial year.

1.2 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, which helps Members to be regularly updated on the Council's overall financial position and to enable the Executive to make relevant decisions as necessary on the direction of both the revenue and capital budgets.

1.3 The report is based upon the core information contained in the Oracle general ledger system supplemented by detailed examinations of budgets between the budget holders and the relevant Finance teams to take account of commitments and projected end of year positions. In addition, for capital monitoring there is the extensive work carried out by the Capital Programme Management Office (CPMO).

1.4 The monthly Resource Monitoring Panels (RMP), chaired by the Cabinet Member for Finance and Human Resources, and attended by Directors and Heads of Service, monitors the detail of individual departments' revenue and capital budgets alongside relevant performance data and this also enhances and forms the basis of this report.

1.5 Over the last two months reports to the Executive have identified significant pressures being faced by Departments. As reporting enters the final quarter of the financial year projections become more robust and the opportunity to manage pressures becomes more restricted.

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 fall by £1.4m as shown in the table at paragraph 2.4. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances. Actions are already in place to reduce the Council's cash out-goings and these will continue to be reviewed.

2.2 In the report to Members regarding the setting of the 2009-10 annual budget and Council Tax, the Chief Finance Officer, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003, set a target reserves level of £7.5m. The current projected balance for the end of the financial year is significantly 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.

	Balance at 1 April 2009 £000	**Projected Balance at 31 March 2010** £000
General Fund	3,700	2,293
Housing Revenue Account (including Rent Reserve)	977	4,369

2.3 In light of the current financial position, all departments have been instructed by the Chief Executive to prepare recovery plans to eliminate their overspends and, in addition, the Corporate Director of Finance and Commercial Services has imposed a council-wide non-essential expenditure freeze including the close monitoring of recruitment spend through a central panel. The 'likely' effect of the recovery plans identified by departments on the currently projected overspends are shown in the table below.

2.4

December 2009	Gross Projected Outturn	'Likely' Effect of Recovery Plans	Net Projected Outturn
	£000	£000	£000
Service Expenditure			
Adult and Community Services	370	(370)	0
Children's Services	1970	(1,770)	200
Customer Services (1)	725	0	725
Resources	(22)	0	(22)
Finance & Commercial Services (1)	(194)	0	(194)
Total Service In-Year Variances	**2,849**	**(2,140)**	**709**

(1) Gross projected outturn already includes effects of recovery plans.

2.5 The current forecast end of year outturn position across the Council for the General Fund compared with the position reported last month and taking into account the effect of recovery plans, is shown in the table below.

	December Forecast Outturn	November Forecast Outturn	Movement
	£000	£000	£000
Service Expenditure			
Adult and Community Services	**0**	0	0
Children's Services	**200**	200	0
Customer Services	**725**	450	275
Resources	**(22)**	0	(22)
Finance & Commercial Services	**(194)**	(198)	4
Total Service In-Year Pressures	**709**	**452**	**257**
Other			
Corporate Issues			
Building Schools for the Future	**1,000**	1,000	0
Looked After Children	**1,100**	1,100	0
Local Housing Company	**500**	500	0
Recharges to revenue	**300**	300	0
Specific reserves/funding released	**(1,202)**	0	(1,202)
Budgeted contribution to balances	**(1,000)**	(1,000)	0
Total In-Year Pressures	**1,407**	**2,352**	**(945)**

2.6 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. Equally, if the 'likely' effect of the existing recovery plans is not achieved, the projected balance position will be worse than reported in paragraph 2.1.

2.7 The probability of Departments being able to manage the implementation of their action plans is reduced due to the fact that there are now less than 2 months left of the financial year in which to implement quite severe savings plans.

2.8 When setting the 2010-11 budget and Council Tax the Authority must have regard for the level of balances and ensure that they are at an appropriate level. If the proposed recovery plans are not achieved and/or if additional in-year pressures arise, the ability of the Authority to set a balanced budget with appropriate reserve levels for 2010-11 will be significantly impaired. The Council Plan/MTFS and Budget and Council Tax Setting reports (also on this agenda) set out plans to increase reserves to £10m in 2010/11.

3 General Revenue Services

3.1 The detailed departmental positions, prior to the effects of any recovery plans, are shown in Appendix A. The key areas of overspend and the movements from the previously reported position, are outlined in the paragraphs below.

3.1.1 Adult and Community Services

Negotiations with the PCT regarding the National Valuing People LD Transfer have been successfully concluded resulting in a circa £300K gain within the Adult Commissioning division. This explains the majority of the reduced projected outturn from the previously reported £775K to £370k

To counter the potential overspend the Departmental Management Team has drawn up a recovery plan which will result in the department breaking even by the end of the year. In year budget pressures in the Learning Disability Service Area (due to transition arrangements from Children's) and Older Persons Care still exist. To assist the departmental position, all non care Service Divisions within the department are required to come in, on aggregate, £100k each under budget.

3.1.2 Children's Services

The Children's Services department continues to project that without corrective action there will be an over spend of £1.97m by year end; an increase of £70K from the previous month. This increase is a consequence of the legacy costs of legal cases. In order to mitigate the projected overspend, the Departmental Management Team has identified actions to potentially achieve savings of £1.97m. However, of these only £1.7m are currently considered likely to be achieved.

3.1.3 Customer Services

The Customer Services department is currently projecting an overspend of £725K which is an increase of £275K on the position reported in November. This projection already includes the effect of the recovery plans identified by the Departmental Management Team.

The increase in overspend is concentrated in the Environment and Enforcement division; the projected underspend in this area has decreased by £187K from last month attributed to the deteriorating weather conditions. Projected spends within the Revenue's and Benefits and Barking and Dagenham Direct divisions have deteriorated by £52K and £35K respectively.

3.1.4 Resources

The Resources department is projecting an underspend of £22K; an improvement of £40K from the overspend of £18k reported last month. The reduction is mainly due to the following:

- A targeted reduction within the supplies and Area Based Grants budgets of the Director and business support division (£51K)
- The completion of a review into interim staffing arrangements and supplies and services budgets with the Human Resources departments (£42K)

The Legal & Democratic divisions overspend has increased by £42K offsetting some of the reductions above. This is due to the in-house employment of locum lawyers on safeguarding work at a cost of £340K. Discussions are ongoing with clients in relation to the additional recharges for these lawyers; as these have not been finalised the cost remains within this division.

3.1.5 Finance & Commercial Services

The Corporate Finance area of this department is currently completing and implementing a reorganisation. Budget pressures, caused by the use of agency staff, have been alleviated through the use of the Council's contingency budget and it is projected that this area will show a small underspend at the end of the year.

The Policy, Performance and Partnerships area of the department is projected to under spend by £182K due to a number of vacant posts that will not be filled by the end of the year.

3.1.6 Corporate Issues

Corporate revenue pressures exist in 2009-10 relating to

- the Building Schools for the Future project (£1m). A base budget item has been included in the Medium Term Financial Strategy (MTFS) to address this issue in future years.
- prior year expenditure on Looked after Children which will not be grant funded by the Home Office (£1.1m) although the authority is continuing to negotiate with Central Government to resolve this.
- the costs of setting up the Local Housing Company (LHC) and the assumption that there will be no recovery of these costs in 2009-10 (£0.5m).
- costs (£0.3m) which can no longer be charged to capital and which will fall to revenue.

Off-setting these pressures are specific reserves which are no longer required and which can be transferred to general reserves

  - Service re-configuration reserve £0.256m
  - Spend to save reserve £0.946m

In addition, other reserves will be further scrutinised to consider their ability to transfer to general balances e.g. ABG, LAA Reward Grant and LABGI.

The DCLG have approved the Councils bid to capitalise redundancy costs incurred in 2009/10. Subject to confirmation of this spend service departmental costs will fall.

Executive are asked to approve the transfer from specific and ear-marked reserves to the general reserve as follows

- Service re-configuration reserve £256,148
- Spend to save reserve £945,560

4 Housing Revenue Account (HRA)

4.1 The HRA is currently projecting a contribution to balances for the year of £3.39m mainly as a result of a decrease in the amount of negative subsidy and Housing Benefit Limitation payable and an underspend on Repairs and Maintenance.

4.2 The forecasted HRA contribution to balances has increased by £1,933K from last year and is greater than expected due to the following reasons:

- The successful outcome of a bid to the CLG for a ‘caps & limit’ adjustment to compensate the HRA for lost income through delivering the Council’s rents within the Governments Rent restructuring framework (circa £900k)
- Leasehold service charges bills were distributed in December 2009. This has provided a more accurate picture of the income levels; this is higher than was expected (circa £300k)
- An analysis of the Repairs and Maintenance has been completed and previous concerns over the level of capitalisation have now reduced therefore a release of £500k has been included in the December 2009 monitor.

4.3 The detailed HRA position is shown in Appendix B.

5 Capital Programme

5.1 Since the original budget was set, budgets have been transferred from 2008/09 into 2009/10 as set out in previous budget monitoring reports and further new schemes have been approved. As at the end of December, the revised budget on the capital programme was £123.96m against an original budget of £71.7m. Profiles approved by Executive in January reduced the overall budget to £114.3m. Full details of the Capital Programme are shown in Appendix C.

5.2 A further review of the delivery of all capital projects has been undertaken and re profiling of a number of capital projects is required. The yearly expenditure changes that the proposed profiles will have are shown in the table below:

Year	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	£’000	**£’000**	**£’000**	**£’000**
Current Profile	21,460	11,364	2,356	60
Proposed Profile	12,530	19,155	3,476	0
Adjustment	**(8,930)**	**7,791**	**1,120**	**(60)**

5.3 If approved the effect of these re-profiles will be to reduce the 2009/10 budget to £105.4m. Actual spend as at the end of December was £53.77m which is 47% of the current working budget. At this stage in the year, it is expected that the outturn will be £103.6m against the proposed budget of £105.4m. This position is subject to robust scrutiny to ensure that timetables and milestones can be adhered to and that budgets are realistic.

5.4 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 Virements

6.1 A review of Invest to Save Schemes has been undertaken and the following schemes require repayments to be re profiled. This will affect the timing of repayments to the Invest to Save reserve.

- Community Equipment - Retail Model: Delays in delivery of the proposal mean that savings will be realised a year later than expected (£100k).
- Externalising Out of Hours/ Careline Service: Delays in restructuring the service means that savings will be realised later than expected (£249k).

6.2 To ensure the optimal use of capital resources, virements to several schemes are required:

- Dagenham Library/ One Stop Shop (£50k) to the Dagenham Heathway.
- Dagenham Dock Infrastructure and Industrial Signage Schemes have been completed but have remaining capital allocations. It is proposed that these be transferred to the Industrial Area Improvement scheme (£17k).
- The Lifelong Learning Centre has been completed and the remainder of the capital budget (£25k) is proposed to be allocated to the Axe Street Housing Project.
- Wind Turbines £197k to Carbon Reduction – anticipated sites and planning issues for the wind turbines have resulted in this scheme not being able to progress. The funding is proposed to be allocated to a variety of carbon reduction projects under the Asset Management function.

6.3 Detailed proposals are shown in Appendix D.

7 Financial Health Indicators

7.1 The Audit Commission's Comprehensive Area Assessment (CAA) requires the council to undergo an assessment into its Use of Resources (UoR).

7.2 One of the key themes within the UoR assessment is the need to evaluate the Council's position regarding its financial standing. A key line of enquiry requires Members to monitor key financial health indicators and set challenging targets for areas including, income collection, level of variance from budget, prudential framework indicators and capital programme management. Whilst the Council has a good track record of achieving these targets, it is appropriate that performance against these targets is presented to the Executive on a regular basis. Attached at

Appendix E is a list of the Council's significant health indicators for the period ending 31st December 2009

8 Consultees

The following were consulted in the preparation of this report:

Councillor G Bramley, Cabinet Member for Finance and Human Resources
Rob Whiteman, Chief Executive
Anne Bristow, Corporate Director of Adult and Community Services
Helen Jenner, Corporate Director of Children's Services
David Woods, Corporate Director of Customer Services
Bill Murphy, Corporate Director of Resources
Tracie Evans, Corporate Director of Finance and Commercial Services
John Hooton, Strategic Finance Controller
Lee Russell, Group Manager – Resources
Steve Whitelock, Group Manager - Adult and Community Services Finance
Shenis Hassan, Acting Group Manager - Children's Services Finance
Tony McNamara, Acting Group Manager - Customer Services Finance
Alex Anderson, Group Manager - Systems and Control
Winston Brown, Legal Partner – Corporate Law and Employment
Capital Programme Management Office (CPMO)

9 Background Papers Used in the Preparation of the Report

- Oracle reports
- CPMO reports
- Revenue Monitoring Panel (RMP) briefing papers

10 List of Appendices

Appendix A – General Fund Revenue Budget Monitoring Statement – December 2009
Appendix B – Housing Revenue Account (HRA) Budget Monitoring Statement – December 2009
Appendix C – Capital Programme Budget Statement – December 2009
Appendix D – Capital Programme Re-profiles & Virements
Appendix E – Financial Health Indicators – December 2009