CABINET

21 DECEMBER 2010

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: 2010/11 Budget Monitoring - April to October 2010	**For Decision**

Summary:

This report updates Cabinet with the Council's revenue and capital position for 2010/11 based on data to end October 2010.

The Council started the 2010/11 financial year in a better financial position than twelve months ago with General Fund (GF) balances of £8.1m, and a robust budget process to set meaningful 2010/11 budgets.

Central Government has already required that nationally local government needs 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 Resources has instructed that the measures put in place during 2009/10 to contain spend be continued. Cabinet on 28 September approved in-year savings of up to £8.4m to address this shortfall in resources.

The projected service overspends (taking account of the in-year savings) have decreased from £3.9m to £3.5m since the report covering the period up to September 2010 which was presented to the last Cabinet meeting on 23 November. The main reason for this is a decrease in projected overspends in the Customer Services and Children's Services departments. The 2010/11 budget includes a £3m contribution to GF balances. If the projected service pressures materialise then GF balances would not increase to the targeted £10m but drop by £0.5m to £7.5m.

The Housing Revenue Account (HRA) is projected to incur a much smaller deficit of £37k resulting in its balance being maintained at the opening balance 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 there will be a slippage of £404k. Capital budgets cannot contribute to the General Fund although officers are working to ensure that all appropriate capitalisations occur.

Wards Affected: None

Recommendation(s)

The Cabinet is recommended to:

(i) Note the current projected outturn position for 2010/11 of the Council's revenue and capital budget as detailed in paragraphs 3 and 5 of the report, and Appendices A and C;

(ii) Note the position for the HRA as detailed in paragraph 4 of the report and Appendix B;

(iii) Note the position of the Contingency fund as detailed in paragraph 3.1.5 of the report.

Reason(s) 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.		
Comments of the Chief Financial Officer This report indicates the assessment that the council continues to face significant pressures in remaining within its 2010/11 budget, in particular following the in-year reduction in resources arising from the Governments emergency budget. The Corporate Director of Finance and Resources has already implemented actions to control spend and departments resources have been reduced to contribute towards the reduced corporate resources.		
Comments of the Legal Partner Previous reports have advised Members of the obligation upon a billing authority 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. Members will note the reported position and comments made in relation to reserves and the budget position for this year going forward. Similarly Members are reminded of the Council's 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 the progress highlighted in this report and wish to satisfy themselves that sufficiently robust actions are being taken to manage service delivery within a shrinking budget base. Members will wish to be satisfied that appropriate actions are being taken to deal with any projected overspends and deliver services in the tougher economic climate the council finds itself in.		
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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 has been confirmed by external audit completing their audit of the accounts.

1.2 This report provides a summary of the Council's General Fund (GF) revenue, HRA and Capital positions and consequent balances based on recurring pressures from last year, risks to anticipated 2010/11 savings, any new pressures and the effect of the reduced in-year resources.

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. In addition, for capital monitoring there is the work carried out by the Capital Programme Management Office (CPMO).

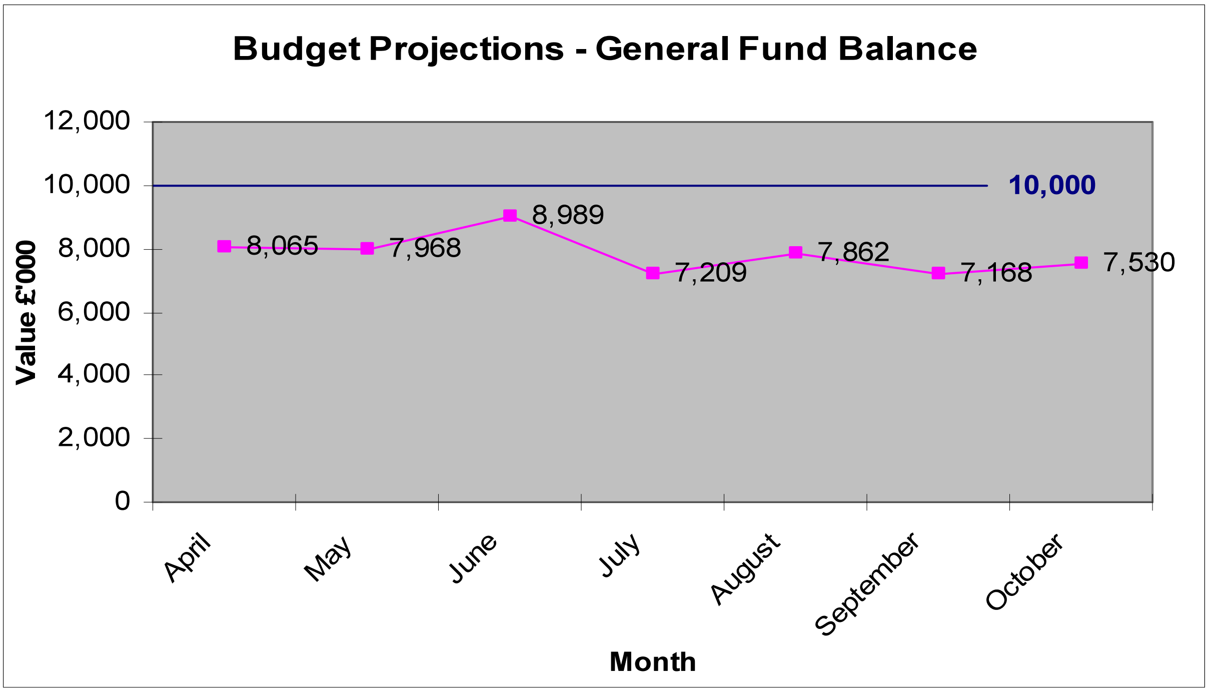
2 Current Overall Position

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 reduce to £7.5m. 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 Resources, 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	7,530	10,000
Housing Revenue Account (including Rent Reserve)	3,400	3,363	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.

	October Projected Variance £'000	September Projected Variance £'000	August Projected Variance £'000	July Projected Variance £'000	June Projected Variance £'000	May Projected Variance £'000
Service Expenditure						
Adult and Community Services	**0**	**0**	**0**	**0**	**0**	**0**
Children's Services	**2,557**	**2,764**	**2,732**	**2,764**	**1,488**	**2,030**
Customer Services	**816**	**1,133**	**471**	**1,092**	**546**	**967**
Finance & Resources	**162**	**0**	**0**	**0**	**42**	**100**
General Finance	**0**	**0**	**0**	**0**	**0**	**0**
Total Service In-Year Pressures	**3,535**	**3,897**	**3,203**	**3,856**	**2,076**	**3,097**
Corporate Issues						
Budgeted contribution to balances	3,000	3,000	3,000	3,000	3,000	3,000
Total In-Year Pressures	**535**	**897**	**203**	**856**	**(924)**	**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 departmental positions are shown in Appendix A. The key areas of potential overspend and risks are outlined in the paragraphs below.

3.1.1 **Adult and Community Services**

The department continues to project a break-even budget position for the year end with the caution that this assessment is based on activity for just over half of the year. It anticipates the months ahead will be challenging to remain within budget noting the level of reductions that have been made to settle their allocated savings targets.

The pressures, previously reported in the care and commissioning budget in relation to residential placements from people leaving local hospitals, continue to be a significant concern. In addition, pressures are also being experienced from children turning 18 years transferring over from Children's Services.

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**

The department is projecting a slightly reduced overspend of £2.56m compared to the previous forecast of £2.77m. It has made significant savings and identified one off income and underspends totalling £847k towards the pressures in the Safeguarding and Rights service area since the previous report. Notwithstanding the reduction, the level of overspend remains a concern particularly given that Legal spend is now projected to overshoot budget by about £500k. Additional costs have been incurred for locum support and court hearings related to 32% of the current cases. The department and Legal Partner are alert to the pressures and are monitoring closely additional costs.

Despite significant work by Children's Services which has resulted in far fewer children being transported, and the implementation of the transport strategy in Passenger Transport reported last month, the Passenger Transport Team (Customer Services) report they are unable to make any material savings to date, resulting in the projection of an overspend of around £400k in this area.

Children's Services DMT are making significant effort to reduce the overall overspend by identifying compensatory savings, reviewing commitments that will not be renewed or can be stopped in year and considering alternative placements arrangements. A spending freeze has been introduced with immediate effect and supplies and services budgets remaining at year end will be clawed back.

The Schools Forum has agreed to fund the pressures relating to Legionella from the Dedicated Schools Grant.

The pressures from intended government cuts in specific grant funding (£108k from the Training and Development Agency grant; £60k from Buddy Programmme and the cessation of Contact Point grant from Quarter 2), unresolved claims from the implementation of Single Status and the rapid population growth reported previously remain a significant concern, which continue to exercise management attention.

A number of posts are being held vacant to help offset the overspends and pressures.

Dedicated School Grant (DSG)

There are pressures of around £900k (£948k reported last month) as a result of additional funding not being made available to meet the additional school places and increase in children with SEN from September 2010. This will be managed in conjunction with the Schools Forum. Start up costs on equipment purchases for new schools also present additional pressures to this fund.

3.1.3 **Customer Services**

The department's forecasted overspend has decreased by £317k to £816k from £1.133 at the end of the last period. This position reflects management actions to tackle the overspend however budget pressures continue to be experienced in staffing costs and income generation which are becoming increasingly difficult to manage without effect on the delivery of the current services.

The E&E division is projected to overspend by £690k as a result of anticipated underachievement of income (£1.1293m) in trade waste, highway maintenance and from Passenger Transport terminating its commercial services activities. The restriction on the use of agency staff and overtime continues to be a challenge and the delay in implementing the fleet management outsourcing contract puts at risk achievement of the projected savings.

The Revenue & Benefits and Barking & Dagenham Direct divisions and Housing Services all show positive movements (decrease in overspends) on their positions reported in the last period. The Housing Service is showing a balanced budget as a result of securing an additional Homelessness grant from the Department of Communities and Local Government.

The Department has still to deliver savings plans for an additional £554k required to achieve its £1.8m in-year target.

The management team are continuing to reviewing actions plans to ensure they are robust enough to continue to drive costs down through further efficiency savings.

3.1.4 **Finance and Resources**

The department is currently projecting to achieve its £3m underspend target. Whilst some services have experienced in-year budget pressures, significant work has been undertaken by both the departmental and divisional management teams to ensure that any in-year budget pressures are contained and both its cash limited budget and in-year savings target are achieved.

The underspend has mainly been achieved through the holding of vacant posts across the department, reducing spend from its Area Based Grant, generating additional income from property and sponsored road schemes and a cut back in external work on corporate projects and tighter control on expenditure on supplies.

3.1.5 **General Finance and Contingency**

General Finance continues to project breaking-even on its working budget.
The balance on contingency is currently £6.6m, including transfers approved at Cabinet on 23 November. The current level of contingency needs to be considered in

relation to the continuing projected departmental overspends and the assumption that all the in-year savings are delivered.

4 Housing Revenue Account

4.1 The HRA is currently forecast to overspend by £37k, a decrease of £265k from the position reported at the end of September (£302k). The key reasons for this improvement are better rental income streams from fewer void properties, an improved savings forecast in repairs and maintenance contract and a positive benefit from the review of the final subsidy claim and depreciation charges on non-dwellings. These positive changes are occurring within the context of mitigating actions that have been put in place. On the downside, projected support cost recharges to the HRA have increased due in part to previously reported unbudgeted items and to the need for the revenue account to cover voluntary redundancies disallowed from capitalisation.

4.2 The detailed HRA position is shown in Appendix B.

5 Capital Programme

5.1 At this stage in the year, it is projected that there will be a slippage of £0.4m on the revised and appraised budget for 2010/11, but following further appraisals and anticipated re-profiles the spend is expected to remain within budget. The departmental analysis is at Appendix C.

6 Legal Issues

6.1 The legal issues are covered in the section “Comments of the Legal Partner” earlier in the report.

7 Other 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 below that recommended by the Corporate Director of Finance and Resources in order to meet potential future financial risks.

- **Staffing Issues**

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. A Voluntary Severance Scheme has been run and over 100 staff will be leaving over the course of the next three months as a consequence. This will make a significant contribution to managing in-year pressures.

- **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. All departments are required to consider the equalities impacts of their savings plans, and to put in place mitigating actions where necessary.

- **Safeguarding Children**

All actions taken to mitigate the overspend of the placements budget in Safeguarding and Rights will need to be undertaken within a risk management framework to ensure that the safeguarding needs of individual children are not compromised.

- **Property / Asset Issues**

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

8 Background Papers Used in the Preparation of the Report:

– Councils Provisional Revenue and Capital Outturn 2009/10 – Cabinet 8 June 2010, Minute 8
– 2010/11 Budget Monitoring Report, Cabinet 6 July 2010 Minute 26
– 2010/11 Budget Monitoring Report, Cabinet 23 November Minute 31

9 List of appendices:

Appendix A – General Fund Revenue Budget Monitoring Statement – October 2010
Appendix B – Housing Revenue Account (HRA) Budget Monitoring Statement – October 2010
Appendix C – Capital Programme Budget Statement – October 2010