CABINET

15 March 2011

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: 2010/11 Budget Monitoring - April 2010 to January 2011	**For Decision**

Summary:

This report provides Cabinet with an update of the Council's revenue and capital position for the ten months to the end of January 2011.

The Council began the current financial year in a better financial position than the previous year with a General Fund (GF) balance of £8m. The robust budget setting process has resulted in a more meaningful and deliverable 2010/11 budget.

During the year, Central Government set an in year savings target of £6.2bn of which the local government sector was required to contribute £1.165bn; this resulted in a further reduction in the Council's funding of up to £5.5m for 2010/11. The Corporate Director of Finance and Resources has ensured that the measures put in place during 2009/10 to contain spending are continued in through the current year. To meet this challenge, Cabinet approved additional in-year savings of up to £8.4m on 28 September to meet the Government savings target and protect the previous year's improvement in the Council's reserves.

At the end of January the full year service overspends (taking account of the in-year savings) are projected to be £1.7m; £0.5m less than the £2.2m position forecast at the end of December 2010 (as reported to Cabinet on 15 February 2011). The main reason for this is a decrease in projected overspends in the Children's Services department reflecting the ongoing work to mitigate cost pressures.

The 2010/11 budget includes a planned contribution of £3m to further improve GF balances. The current projected service pressures of £1.7m will result in GF balances increasing by only £1.3m to £9.3m and not to the target of £10m.

The Housing Revenue Account (HRA) is projected to incur an underspend of £959k indicating that the year end balance would be £4.4m. The HRA is a ring fenced account and cannot make contributions to the General Fund.

The Capital Programme is currently projecting slippage in budgeted expenditure of £9.2m. This represents the position on all the schemes in the capital programme approved by members, regardless of whether work has commenced yet or not. Capital budgets cannot contribute to the General Fund revenue position 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 as reduced by the imposition of the £5.5m 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 restricted Council 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. It is to be noted that a robust financial position based on effective past measures is here reported. 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 £8m, an increase of £4.4m on the position twelve months earlier. This position has now been confirmed following completion of the audit of the Council's Statement of Accounts.

1.2 This report provides a summary of the Council's General Fund (GF) revenue and Capital positions, HRA 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. This is achieved within the Council by monitoring the financial results on a monthly basis through briefings to the Cabinet Member for Finance, Revenues and Benefits and reports to Cabinet. This ensures Members are regularly updated on the Council's overall financial position and enables the Cabinet to make relevant financial and operational decisions to meet its 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).

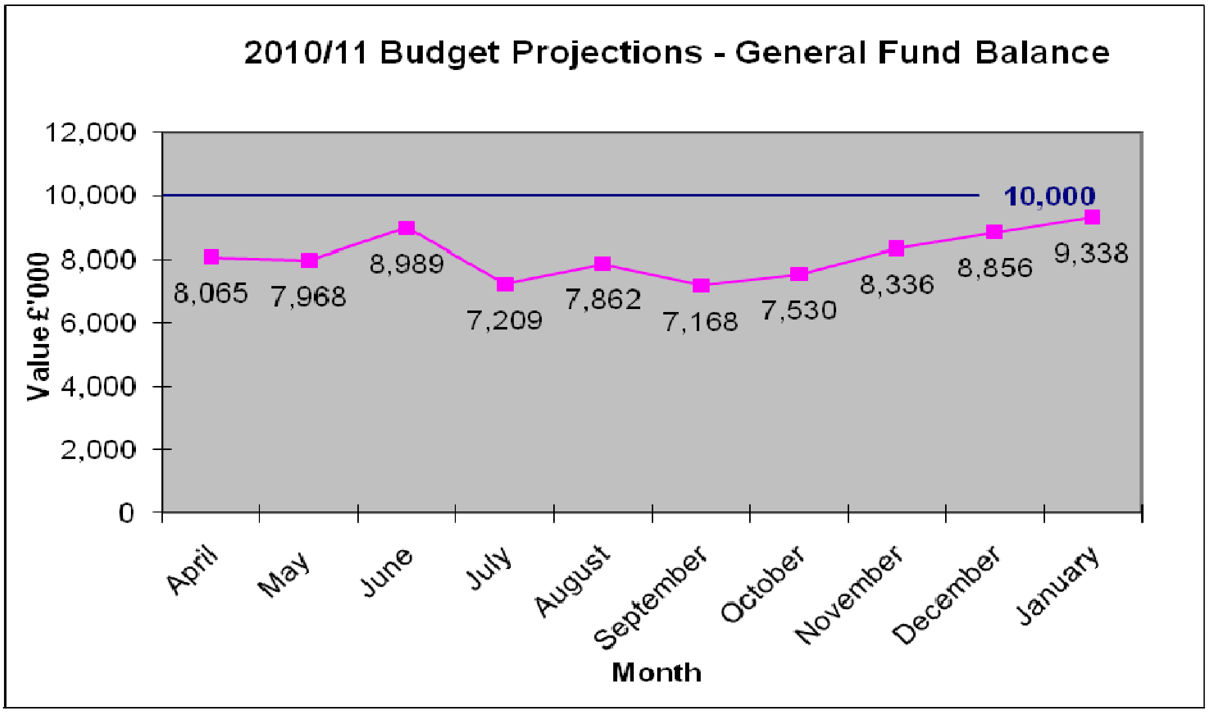
2 Current Overall Position

2.1 The current revenue projections indicate an overspend of £1.7m for the end of the financial year indicating that the Council's General Fund balance will increase by the only £1.3m to £9.3m rather than the planned £10m. 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	9,338	10,000
Housing Revenue Account (including Rent Reserve)	3,400	4,359	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.

	January Projected Variance £'000	December Projected Variance £'000	November Projected Variance £'000
Service Expenditure			
Adult and Community Services	**0**	**0**	**0**
Children's Services	**1,329**	**1,769**	**2,149**
Customer Services	**398**	**440**	**529**
Finance & Resources	**0**	**0**	**51**
General Finance	**0**	**0**	**0**
Total Service In-Year Pressures	**1,727**	**2,209**	**2,729**
Corporate Issues			
Budgeted contribution to balances	3,000	3,000	3,000
Total In-Year Pressures	**(1,273)**	**(791)**	**(271)**

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 is projecting a break-even position for the year end. It's Adult Care and Commissioning Service budget continues to experience severe pressures at the interface with local hospitals and the PCT. The most significant of the pressures relate to residential placements of people leaving local hospitals but the department has successfully negotiated some 'winter pressures' money from the PCT towards these pressures. In addition, pressures from the increasing number of children with care package arrangements turning 18 years of age and therefore transferring over from Children's Services remain a concern.

There are no significant budget pressures in the other service budgets at present although it seem inevitable the current recession would impact the income generation areas in Leisure and Arts.

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 full year overspend of £1.33m, a decrease of £440k from the figure reported in period 9. This reduction reflects further reductions in commitments in Children's Policy and Trust Commissioning (CPTC) (£200k), a small reduction in the projected spend in Safeguarding and Rights (S&R) and a reduction in spend in Other Services (£200k). The projection takes into account additional one-off income (£1.65m) identified through the alternative use of grants.

The projection also reflects the actions taken by the departmental management team to bear down on the overspend in S&R including a spending freeze across the service, a review of the commitments that can be stopped in year and a contribution of underspends in other areas. The level of departmental overspend has gradually reduce as a result, although not by as much as envisaged. It should be noted however, that these savings are current in-year savings and cannot be maintained in the long term.

Previously reported pressures in spending on legal services (£500k) and passenger transport (circa £400k) have now turned into overspends. Children's Services continue to closely monitor spending in these areas to enable remedial action to be taken at the earliest opportunity. In addition the pressures in government cuts in specific grant funding, unresolved claims from the implementation of Single Status and the rapid population growth, also reported previously, continue to exercise management attention.

Dedicated School Grant (DSG)

The main pressure on the DSG remains that of the additional places required and the related increase in children with SEN from September 2010. These pressures are now estimated to have an impact of around £800k in the centrally retained element of the DSG. This pressure 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 is forecasting a full year overspend of £398k, a decrease of £42k from the figure reported in period 9. This positive movement has been achieved in spite of the identification of additional pressures estimated at £500k in Private Sector Leasing (PSL). This new pressure has arisen from the requirement to include the full impact of PSL housing benefit subsidy gap resulting from the changes to the subsidy rules, attributable to housing services budgets. The department continues to carefully monitor and manage the additional pressure of £332k resulting from the gap between bed and breakfast costs and related housing benefit income.

The residual overspend from the transfer of Revenues and Benefits to Elevate is projected to rise from £357k reported in period 9 to £436k. Recent reconciliation work has highlighted a potential significant pressure which is now the subject of an urgent review to establish the precise value. The pressure from not achieving incomes from court costs remain a concern. The Barking and Dagenham Direct service is projected to underspend by £359k, an increase of £2k from the last period.

The Environment &Enforcement division is now projected to underspend by £55k, a positive movement of £538k from the overspend reported in period 9. This reduction has been achieved by the control of equipment purchases and other management actions. The pressures previously reported in income generation in relation trade waste, footways crossings and commercial passenger transport remain a concern.

It is more probable than not that the planned savings from outsourcing of the fleet management contract will not materialise in this accounting period given the delay in sign-off of the contract. Another risk to note is the potential lack of capacity to capitalise revenue costs not previously agreed.

3.1.4 **Finance and Resources**

At the end of period 10, the department is projecting an underspend of £3m to be used as contribution to its in-year savings target of the same amount. The departmental and divisional management team has done a significant amount of work to contain in-year budget pressures to remain within cash limits and achieve the in-year savings target.

Although there are continuing pressures in some service areas, the underspend has been achieved through the voluntary severance scheme, deleting or holding posts vacant, a tighter control on expenditure, reduction in some spending (Area Based Grant, training and data security, external work on corporate projects) and securing additional revenue/ funding.

The Marketing & Communications and Asset Management and Capital Delivery areas continue to monitor and manage cost and income generation pressures.

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. 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 projected to underspend by £959k, a negative change of £42k from the last period. Revenue from residential tenants, leasehold service charges and commercial properties are projected to exceed expectation, however on the downside, interest income is forecast to be below expectation because of lower interest rates and a lowering of the credit ceiling rate underpinning the calculation.

4.2 The projected overspend related to recharges for supervision and management costs reduced to £1,068k, a decrease of £346k from the last period. The change stems from the reallocation of costs to appropriate categories.

4.3 A pressure of £200k of insurance costs outside the scope of the Enterprise repairs and maintenance contract has been mitigated by underspends in the client team and with further income contributions expected from rechargeable work.

4.4 The HRA is forecasted to benefit from positive movements on the final HRA subsidy claim and depreciation of non-dwellings.

4.5 The detailed HRA position is shown in Appendix B.

5 Capital Programme

5.1 As at the end of January, the capital programme is showing a spend of £70.99m which is 61% of the capital programme approved by cabinet. The projected outturn is £106.83m; showing a slippage of £9.2m.

5.2 The full departmental analysis of capital projects is provided at Appendix C.

6 Capital Scheme Re-Profiles/Adjustments

6.1 A review of all capital projects has been undertaken and re-profiling of a number of schemes is required as shown in Appendix D. This has also been incorporated into the revised budget within Appendix C to enable a much better outturn and projected slippage to be obtained.

6.2 Re-profiling for many schemes is required due to project sponsors awaiting funding confirmations from central government. These have only recently been confirmed subsequently schemes have either recently approved five green lights through the CPMO process or have yet to receive them. Consequently, spend projections have changed and budgets need to be re-profiled to accurately these profiles and to account for the delay in delivery.

7 Legal Issues

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

8 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 and contributes to the rating of Corporate Risk 07 – Budget Management & Income Realisation.

- **Staffing Issues**

As part of the measures to reduce in-year pressures any recruitment has to be agreed at Director-level. A Voluntary Severance Scheme was instigated in July and over 100 staff will be leaving as a consequence. A further Scheme is now running, with a closing date for applications in early January, although this is unlikely to impact on the 2010/11 financial position.

- **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

9 Background Papers Used in the Preparation of the Report:

– Councils Provisional Revenue and Capital Outturn 2009/10 – Cabinet 8 June 2010, Minute 8

10 List of appendices:

Appendix A – General Fund Revenue Budget Monitoring Statement – January 2011
Appendix B – Housing Revenue Account (HRA) Budget Monitoring Statement – January 2011
Appendix C – Capital Programme Budget Statement – January 2011
Appendix D – Capital Programme Re-profiling