

CABINET

14 JUNE 2011

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: Council's Provisional Revenue And Capital Outturn 2010/11	For Decision
<p>Summary:</p> <p>The Council's revenue outturn (subject to final accounting entries) is a net underspend of £2.8m against a net revenue budget of £154.8m (2%). The impact of the 2010/11 underspend is that the financial position at 31 March 2011 has improved to reflect a revenue account balance and therefore a reserve position of £10.8m at the end of 2010/11 compared to a balance of £8.1m at the end of 2009/10. This provides a significant improvement in the Council's financial position at the 31 March 2011 and exceeds the target to achieve a £10.0m General Fund balance set by the Director of Finance and Resources.</p> <p>The Housing Revenue Account (HRA) also generated a surplus which has been transferred to HRA balances (which are ring-fenced) increasing them by £1m from £3.4m at the start of the year to £4.4m at 31 March 2011.</p> <p>Capital spend of £106.1m was incurred in 2010/11 against the revised capital budget of £115.6m (92%).</p> <p>Contingencies have been created within the general fund for approval by Cabinet prior to the adoption of the Statement of Accounts on 30 June 2011 and are set out in section 3.4.</p> <p>Wards Affected: All</p>	
<p>Recommendation(s)</p> <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the outturn and balances position of the Councils General Fund revenue budgets for 2010/11(ii) Approve the transfer of reserves to the General Fund balances as per paragraph 2.3(iii) Approve the final in-year budget adjustments as set out in paragraph 3.4(iv) Note the outturn and balances position of the Housing Revenue Account – paragraph 4(v) Note the outturn position for the 2010/11 Financial Health Indicators – paragraph 5 and appendix B(vi) Note the outturn position of the Council's Capital Programme – paragraph 6(vii) Approve the capital budget adjustments and funding from borrowings – paragraph 6.7(viii) Approve the carry forward items from the 2010/11 Capital Programme to be incorporated into the 2011/12 and future years capital programme subject to a final review by the Corporate Director of Finance and Commercial Services - appendix D(ix) Approve the roll-back of 2011/12 funding to meet 2010/11 Capital Programme costs	

- incurred ahead of schedule – appendix E
- (x) Approve the appropriate re-phasing of 2010/11 to 2012/13 capital budgets where expenditure is out of line with actual expenditure.
 - (xi) Note the outturn position for the 2010/11 Prudential Indicators – paragraph 7 and appendix F

Reason(s)

As a matter of good financial practice, the Cabinet should be informed of the final outturn and performance of the Council's Revenue and Capital resources. Knowledge of the variances from planned budgets will assist members in making sound future decisions.

Comments of the Chief Financial Officer

This report states the provisional financial position for the Council at the end of the 2010/11 financial year and shows significant improvement on the two previous years. The overall position reported encompasses a number of significant pressures which have been reported consistently throughout the year. Compensating actions have been taken during the year to manage pressures and these are shown to have been successful. Many pressures continue into 2011/12 which will need to be closely monitored and managed.

Comments of the Monitoring Officer to the Council

The report confirms the projected outturn of the Council's revenue and capital budgets for 2010/2011. The Council has an obligation 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.

The section 151 Officer has indicated that she considers £10m to be an appropriate level of reserves for the Council. The report confirms that due to effective in year measures the Council is predicted to exceed this target and have £10.8m in reserve. Members will no doubt be pleased to note the progress reported and also have regard to any service areas which continue to pose challenges notwithstanding the overall favourable report.

The Housing Finance Act 1972 requires local authorities to maintain a separate Housing Revenue Account (HRA) and the Local Government and Housing Act 1989 requires the Council to ring-fence the HRA thereby preventing any cross-subsidisation from the General Fund. The report also updates Members on the out turn for this account.

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1. Background

- 1.1 Throughout 2010/11 the Cabinet agreed all major changes to the original revenue and capital budgets which had been approved on 24 February 2010. The overall impact of these changes was to keep the overall revenue budget at £154.8m and the capital budget reduced from £156.2m to £115.6m as a result of the re-profiling of the capital budget (of which the Building Schools for the Future (BSF) programme accounted for £35m).
- 1.2 2010/11 was a challenging year as the Government's Emergency Budget required the Council to find additional, in year savings of £8m while ensuring the previous year's improvement in the Council's reserves were protected. Specific operational pressures were managed in both Children's Services and Customer Services and savings made in back office services to deliver an overall under spend in both revenue and capital budgets.

2. The Council's General Fund Position

- 2.1 The outturn position for the Council's General Fund budget at the end of 2010/11 is a net under spend of £2.8m on its General Fund Revenue Services against a profiled budget of £154.7m (£151.7m budget plus an achieved £3.0m contribution to balances) equating to a 2% under spend as set out below:

	<u>Budget</u> <u>£'000</u>	<u>Actual</u> <u>£'000</u>	<u>Over/ (under)</u> <u>spend</u> <u>£'000</u>
General Fund Services	154,772	151,996	(2,776)

- 2.2 The outturn is based on the work completed to date as part of the closure process. There may be changes to this position as work continues on the preparation of the Statement of Accounts and these will be reported to Cabinet when the accounts are finalised.
- 2.3 The effect of the budget under spend is to increase the General fund reserve from £8.1m to £10.8m; £0.8m above the target agreed by Council.

	<u>£'000</u>
Opening balance at 1 April 2010	8,065
Net transfer to General Fund	2,776
Closing balance at 31 March 2011	10,841

- 2.4 The target £10.0m General Fund balance which was set at the beginning of the financial year was based on the minimum amount expected, for good practice accounting, to provide sufficient reserves to manage potential risks.

3 Service General Fund Position

- 3.1 During the last financial year, all departments were asked to find an additional £1.8m savings to reflect the Government's in-year Emergency Budget cuts. For

Finance and Resources, this figure was increased to £3.0m. The outturn should therefore be viewed within the context of these circumstances.

- 3.2 The General Fund Outturn position for service budgets is summarised below against the original and revised budgets to more fully reflect the savings achieved in the services which were revised by Cabinet on 28 September 2010:

<u>Service Department</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Outturn</u>	<u>Over/ (under) spend</u>	<u>Over/ (under) spend %age</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>%age</u>
Adult & Community Services	69,978	70,151	69,951	(200)	(0.3)
Children's Services	60,284	61,430	61,913	483	0.8
Customer Services	24,582	27,804	28,203	399	1.4
Finance & Resources	13,502	12,388	11,411	(977)	(7.9)
Net Service Position	168,616	171,773	171,478	(295)	(0.02)
Corporate	(13,845)	(17,001)	(19,482)	(2,481)	(14.6)
Total	154,771	154,772	151,996	(2,776)	(1.8)

- 3.3 Given the scale of the financial pressures that have arisen during the year from both economic constraints and increasing restrictions on public sector funding, the end-of-year position demonstrates a successful year of financial control and the ability to implement and deliver action plans to cope with changing circumstances. The 2011/12 Budget process has reflected the revised economic landscape and the growing demand for the services the council provides to the community but will need to be monitored and managed as part of the in year budget monitoring and in the coming year's budget process.

- 3.3 The following items have been identified as corporate issues which the Council needs to address as a result of the final year-end postings within the General Ledger system. The adjustments set out below do not alter the outturn position:

- Provision for redundancy costs arising from the Council's voluntary severance scheme (not covered by the capitalisation order agreed with DCLG); £1,380k
- Contingency to reflect the increasing true risk of bad debt and write-offs across the Council's services arising from re-adjustment of historic budgets, changes to Housing Benefits, Universal Credit and the continuing, poor economic climate; £1,672k
- Contingency to support the delivery of the Council's budget through the high level of savings risks included as a result of the reduction in government funding; £1,000k
- Contingency to meet transition costs arising from the creation of the Elevate joint venture in December 2010; £803k
- Increase in the insurance provision to reflect the rising level of claims made in 2010/11: £500k
- Support provided to Customer Services in respect of historic Revenues and Benefits budget issues (the nature of which are the subject of a separate Cabinet report); £1,405k

- To roll forward a contingency budget in respect of Joint Venture costs; £1,750k
- To roll forward regeneration budgets in Resources and Finance: £480k
- To roll forward Children's Services budgets (including Adult college, music services and Butler Court) £1,048k

3.5 A brief summary of the significant departmental issues that arose during 2010/11 is provided below and an analysis by division is provided in **Appendix A**:

3.5.1 Adult & Community Services

Adult and Community Services have reported an outturn position of £200k under budget by year end. The year was extremely challenging with significant service pressure and demand being experienced and ultimately managed by the Departments Management Team through robust monitoring arrangements.

As reported at Resource Monitoring Panels throughout the year, both Adult Commissioning and Adult Care experienced budget pressures in particular around the interface with local hospitals and the PCT in respect of Older Peoples services. This may have led to budget overspends had the Department of Health not provided winter pressures and re-ablement monies that were transferred to Councils with Social Services Responsibilities from Primary Care Trusts to alleviate the additional expenditure in this area.

Community Safety & Neighbourhood Services and Culture and Sport Divisions, reported modest under spends on their budgets largely due to savings items and expenditure constraint in Month 12. This, along with the maximisation of Government Grant funding, helped the Departments final outturn position.

3.5.2 Children's Services

Throughout the year, Children's services have reported significant pressures on the Safeguarding and Rights placements budgets of £3.3m as well as other pressures within Safeguarding and Rights on legal and assessments. Significant management actions have been taken to deliver additional in year savings, through freezing expenditure, tighter controls on recruitment of staff and terminating contractual commitments where possible. These actions brought down the overall departmental overspend significantly. In addition to the above management actions, Children's Services have maximised the use of non recurring grant income that has now been mainstreamed into the Formula Grant. Pressures on placements will however continue into the new financial year and there is a programme in place to bring down the level of expenditure.

As a result of the above, the year end position for Children's Services is an over spend of £484k. This is extremely positive in light of the above and the reduction in the projected overspend have been achieved in addition to the Department contributing towards the £1.8m in year savings target.

3.5.3 Customer Services

The department ended the year with an overspend of £399k, having made a contribution to the emergency budget savings of £1,246m and below the initial forecast overspends forecast at the start of the year. Environment and

Enforcement managed cost pressures arising in staffing costs (agency and overtime to cover staff absences, fuel costs (reflecting increased diesel costs) and vehicle hire costs (Translinc contract) together with reduced income from trade waste and footway crossings. In addition, Housing Services overspent as a result of an increased contribution to Revenues & Benefits as a result of changes in Housing Benefit rules.

These overspends were in part off-set by an under spend in Revenues & Benefits mainly due to a surplus from the operation of the Housing Benefit subsidy scheme, partly offset by increased operational costs. Also, B&D Direct positively managed employment costs pending the transfer of the service to the Elevate joint venture and benefitted from a refund of NNDR due to a reduction in rateable value of the Barking Learning Centre.

3.5.4 Resources and Finance

Overall the department achieved an under spend of £977k against its revised budget. However the revised budget also includes an in-year reduction of £3m being the department's contribution to the Council's in-year savings target. As a result Finance & Resources has in 2010/11 under spent by some £3.977m against its original budget allocation, which has been achieved through both its departmental and divisional management team's hard work in containing in-year budget pressures, reducing spend and identifying immediate savings.

Although the department has experienced pressures in some service areas, the under spend has been achieved through a combination of the voluntary severance scheme, deleting or holding vacant posts, 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.

3.5.5 Corporate

The corporate under spend arose mainly from a £1.5m savings in interest costs against the budget. Other savings arose from small savings in central costs and increased grant income to provide a full year outturn £2,482k below budget.

4. Housing Revenue Account

4.1 The Housing Finance Act 1972 requires local authorities to maintain a separate Housing Revenue Account (HRA) and the Local Government and Housing Act 1989 requires the Council to ring-fence the HRA thereby preventing any cross-subsidisation from the General Fund. The Council also maintains a statutory duty to ensure that the HRA does not fall into deficit. The provisional outturn for the Housing Revenue Account shows a working balance at 31 March 2011 of £4.420m compared to an opening balance of £3.400m and a projected closing balance of £4.369m.

4.2 The final outturn for the HRA is a net surplus of £1,048k. This represents an improved position from month 11 by 79k. The main reasons for the surplus relate to rents, leasehold charges and shop income exceeding expectations, which has helped to offset additional cost pressures in supervision and managements, as well as reduction in investment income because of reduced interest rates.

Costs of Management and Maintenance, increased by further £548k due to one off costs such as redundancy, severance and pension costs, as well as unexpected repairs costs relating to communal water supplies which were not provided for within the repairs contract. However, the additional pressures have been managed by reviewing the subsidy and capital charges, which resulted in reduced charges to the HRA. In addition, work done to improve the rent collection rates meant that the provision for bad debts did not have to be as high as previously forecasted.

Overall, the management target to clean up the HRA ledgers and increase HRA balances in view of the forthcoming HRA reform has been delivered although some work is on-going to regularise budgets.

5. Financial Health Indicators

- 5.1 The Council has a clear ambition to deliver excellent value for money services and to constantly improve its performance.
- 5.2 One of the mechanisms to demonstrate continuous improvement in the robustness of the Councils financial position is for Members to be aware of key financial health indicators and set challenging targets, for example, for income collection, level of variance from budget, prudential framework indicators, 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 Cabinet on a regular basis. Currently all health indicators are presented to the Cabinet on a quarterly basis throughout the financial year. **Appendix B** provides a list of the Council's significant financial health indicators for the financial year 2010/11.

6. Capital Programme

- 6.1 The total capital expenditure for 2010/11 was £106.1m out of a revised budget of £115.6m, an under spend of £9.5m; a summary of the Capital outturn is provided in **Appendix C**. The original budget of £156.2m was re-profiled to reflect the delay in some major capital projects, most significant of these being the elimination of BSF project arrangements already in place following changes in central government policy.

Included in paragraph this report is a summary of budget increases of £3.2m (as set out in **paragraph 6.7**), roll-forward requests into 2011/12 totalling £14.7m, with £2.3m of budgets brought forward from 2011/12 into 2010/11, giving a net underspend position of £0.3m; summarised in the table in paragraph 6.4..

- 6.2 These figures indicate that 91.8% of the revised capital programme was spent in 2010/11. This demonstrates effective financial management principles that are applied across the capital programme from both the Capital Programme Management Office (CPMO) and departmental finance teams.
- 6.3 The Cabinet is asked to consider and approve the carry forward of unspent budgets from 2010/11 into future years. The detail of these requests is included in **Appendix D** to this report totalling £14.7m.
- 6.4 The capital outturn position can be summarised as follows:

Revised Budget 2010/11	<u>£m</u> 115.6
Less:	
Actual Expenditure 2009/10	106.1
Underspend	(9.5)
Budget increases (redundancy capitalisation)	(3.2)
Budgets Rolled Forward into 2011/12	14.7
Budgets Brought Forward from 2011/12	(2.3)
Net overspend after roll-forwards	(0.3)

6.5 Within the overall position there are a number of issues to note, the underspend arises mainly from:

- delays in obtaining approval for projects to commence
- timing delays due to adverse weather or project commencement

6.6 The budgets brought forward from 2011/12 of £2.3m are as a result of projects that have spent in advance of their 2010/11 budget, being ahead of their original expenditure programme profile, and can be funded from resources currently included in the 2011/12 programme. These are detailed in **Appendix E**.

6.7 To ensure that the final revised budget reflects the outturn position, there are a number of budget approvals required to the 2010/11 capital programme totalling £4.4m which are:

- increases in external funding on small, specific projects £0.35m
- The Council received a “capitalisation directive” from central government of £2.75m in 2010/11 to fund significant one off expenditure for restructuring i.e. the costs of statutory redundancy and early retirement. This expenditure has been capitalised from the revenue accounts and will be funded from corporate resources to spread the cost over a number of years.
- Net overspend carried forward to be funded from borrowings (subject to Cabinet approval).

7. Prudential Indicators

7.1 Regulations issued under the Local Government Act 2003 require local authorities to have regard to the CIPFA Prudential Code for Capital Finance. This code considers the prudence, affordability and sustainability of capital investment decisions made by the Council.

7.2 The Council set a series of “prudential indicators” to measure capital investment decisions against the key principles of the code. They include the level of capital expenditure, the associated financing costs and impact on Council Tax and Housing Rents. They also include treasury management indicators which set out limits for investment and borrowing decisions throughout the year.

7.3 **Appendix F** sets out the outturn position for 2010/11 against the indicators as set in February 2010. Treasury management indicators confirm that the limits set for investment and borrowing decisions were adhered to throughout the year. The Capital Financing Requirement was lower than anticipated due to reduced Capital Programme borrowings and is set out in full in a separate report to Cabinet.

8. Links to Corporate and other Plans and Strategies

8.1 The outturn reported above has links to the Medium Term Financial Strategy (MTFS), whereby changes to the level of balances anticipated when the MTFS was set will need to be considered when it is next reviewed. Any variances incurred in 2010/11 and which may recur in 2011/12 and future years will be considered when reviewing the MTFS during the 2012/13 budget process.

8.3 The future Capital Programme will need to be amended for the recommendations in this report arising from the roll forwards and roll backs and financing.

9. Legal Issues

9.1 The legal issues are covered in the section 'Comments of the Solicitor to the Council' earlier in the report.

10. Other Implications

- **Risk Management**

The outturn indicates that the Council has effectively managed the risk of projected overspends (identified in earlier reports) to provide sufficient General Fund balance in line with that recommended by the Corporate Director of Finance and Resources in order to meet potential future financial risks.

The outturn position remains subject to potential changes arising from internal quality assurance processes or external audit review.

- **Staffing Issues -**

As part of the measures to reduce in-year pressures a freeze on general recruitment was implemented together with clear focus on minimising agency costs. Recruitment was limited to essential appointments only and the amount of overtime paid was reduced through closer management.

- **Customer Impact**

As far as possible all restraints which were put in place to reduce spend were targeted at non-essential services. Some restraints may have directly or indirectly affected customers but every effort was made to mitigate any impact on front line services and vulnerable groups.

A number of the recommended transfers of budgets for 2011/12 are designed to protect and improve services for specific customer groups.

- **Safeguarding Children**

No specific implications.

- **Property/Asset Issues**

No specific implications

11. Background Papers Used in the Preparation of the Report:

Monthly budget monitoring reports to Cabinet during 2010/11
Council tax setting report 2010/11, Cabinet February 2010

12. List of appendices:

Appendix A –Revenue Outturn 2010/11
Appendix B – Financial Health Indicators
Appendix C – Capital Programme Outturn 2010/11
Appendix D – Capital Programme 2010/11 Roll Forwards
Appendix E – Capital Programme 2011/12 Roll Backs
Appendix F – Prudential Indicators

Appendix A

REVENUE OUTTURN STATEMENT - 2010/11

2010/11				
SERVICES	Original Budget	Working Budget	Outturn	Projected Variance
	£'000	£'000	£'000	£'000
<u>Adult & Community Services</u>				
Adult Care Services	5,340	5,192	5,176	(16)
Adult Commissioning Services	45,722	46,982	47,701	719
Community Safety & Neighbourhood Services	4,119	4,073	3,736	(337)
Community Cohesion & Equalities	8,129	7,884	7,399	(485)
Leisure & Arts	6,053	5,436	5,272	(164)
SSR/ Other Services	615	584	667	83
	69,978	70,151	69,951	(200)
<u>Children's Services</u>				
Quality & Schools Improvement	9,197	8,650	7,981	(669)
Integrated Family Services	1,694	1,371	1,359	(12)
Safeguarding & Rights Services	31,545	31,978	34,773	2,795
Children's Policy & Trust Commissioning	6,597	6,177	6,031	(146)
Skills, Learning and Enterprise	4,366	5,097	4,474	(623)
Other Services	6,885	8,157	7,295	(862)
	60,284	61,430	61,913	483
<u>Children's Services - DSG</u>				
Schools	(14,320)	(15,175)	(15,175)	-
Quality & Schools Improvement	10,920	9,040	9,040	-
Integrated Family Services	1,560	2,544	2,544	-
Safeguarding & Rights Services	-	214	214	-
Children's Policy & Trust Commissioning	1,070	1,163	1,163	-
Skills and Learning	770	770	770	-
Other Services	-	1,444	1,444	-
	-	-	-	-
<u>Customer Services</u>				
Environment & Enforcement	19,520	19,958	20,602	644
Housing Services	4,616	3,065	3,360	295
Revenues & Benefits	1,215	1,895	1,779	(116)
Barking & Dagenham Direct	(499)	2,886	2,462	(424)
	24,852	27,804	28,203	399
	Original	Working	Outturn	Projected

	Budget £'000	Budget £'000	£'000	Variance £'000
<u>Finance & Resources</u>				
Chief Executive	60	1,194	1,185	(9)
Marketing & Communication and Other Directorate Costs*	647	(449)	(683)	(234)
Legal & Democratic Services	827	840	796	(44)
Customer Strategy and Transformation**	(414)	(3,027)	(3,193)	(166)
Human Resources	(181)	(16)	(32)	(16)
Asset Management & Capital Delivery	1,982	4,629	4,482	(147)
Corporate Management	5,411	4,836	4,694	(142)
Financial Services	(144)	148	118	(30)
Strategy and Performance Regeneration & Economic Development	(164)	(484)	(526)	(42)
	5,477	4,717	4,571	(146)
	13,501	12,388	11,412	(976)
<u>Other</u>				
General Finance	(27,850)	(24,984)	(27,609)	(2,625)
Contingency	6,023	-	-	-
Levies	7,983	7,983	8,126	143
TOTAL	154,771	154,772	151,996	(2,776)