

CABINET

22 NOVEMBER 2011

Title: Budget Monitoring 2011/12 - April to September 2011	
REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS	
Open report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Divisional Director: Jonathan Bunt, Divisional Director of Finance	
Accountable Director: Tracie Evans, Corporate Director of Finance and Resources	
Summary: <p>This report provides Cabinet with an update of the Council's revenue and capital position for the six months to the end of September 2011.</p> <p>The Council began the current financial year in a better financial position than the previous year with a General Fund (GF) balance of £10.8m.</p> <p>At the end of September 2011, total Service expenditure for the full year is projected to be £185.6m against the approved budget of £183.4m; a projected over spend of £2.2m. The over spends arise in Children's Services (Complex Needs and Social Care), Customer Services (reduced income and cost pressures in Environmental divisions) and Resources and Finance (due to an over stated recharge budget in Revenues and Benefits). Further explanatory summaries are contained in section 2 of this report.</p> <p>The 2011/12 budget includes a planned contribution of £1.5m to further improve GF balances. The current projected service pressures of £2.2m, less the planned contribution to balances of £1.5m, could result in the General Fund balance reducing by £0.7m to £10.1m without action plans being developed to mitigate the forecast over spend.</p> <p>The Housing Revenue Account (HRA) is projected to contribute £71k more than budgeted to the HRA reserve. The projected contribution to the HRA reserve currently stands at £1.5m. The HRA is a ring fenced account and cannot make contributions to the General Fund.</p> <p>The Capital Programme has been updated to reflect project roll-overs and changes approved at Cabinet on 14 June and the budget stands at £149.0m; this represents the position on all the schemes in the capital programme. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur. The report includes a request to make budget adjustments to the existing capital programme as detailed in appendix E.</p>	

Recommendation(s)

The Cabinet is recommended to:

- (i) Note the projected outturn position for 2011/12 of the Council's revenue budget as detailed in paragraphs 2.3 to 2.12 of the report;
- (ii) Note the progress against the 2011/12 savings targets in paragraph 2.13 of the report;
- (iii) Note the position for the HRA as detailed in paragraph 2.14 of the report;
- (iv) Note the projected outturn position for 2011/12 of the Council's capital budget as detailed in paragraph 2.15 of the report;
- (v) Approve the transfer from contingency as set out in paragraph 2.16 of the report;
- (vi) Approve the revenue budget adjustment as set out in paragraph 2.17 of the report;
- (vii) Approve the capital budget adjustments as set out in appendix E 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.

1 Introduction and Background

- 1.1** The Outturn report to Cabinet on 14 June 2011 reported that, as at 31 March 2011, general fund balances stood at £10.8m, an increase of £2.8m on the position twelve months earlier. This position has 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 and the HRA. It also provides an update on progress made to date in the delivery of the agreed savings targets built into the 2011/12 budget setting out risks to anticipated savings and action plans to mitigate the risk.
- 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 Directorate revenue projections (before the planned contribution to balances of £1.5m) indicate an over spend of £2.2m for the end of the financial year of which:

- £0.9m arises from pressures in Children's Services. An overspend of £2.7m within the Complex Needs and Social Care budget is forecast, offset by a projected £1.8m under spend in Management Costs and Targeted Support;
- £0.8m arises from cost pressures in Environmental Services;
- £1.0m in Finance and Resources due to an error in setting the recharge budgets in Revenues and Benefits;
- (£0.2m) under spend in the Chief Executive Office due to vacancies;
- (£0.3m) under spend in Central Expenses due to lower interest payments and a VAT claim.

The initial net forecast of a £0.7m overspend (£2.2m less £1.5m) would result in the Council's General Fund balance remaining above the budgeted target of £10.0m. 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 net out-goings.

2.2 In the report to Members regarding the setting of the 2011/12 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 £10.0m. The General Fund balance at 31 March 2011 was £10.8m and the current projected balance for the end of the financial year (including the planned contribution to balances of £1.5m) is £10.1m.

The HRA budget for 2011/12 includes a contribution to the HRA reserve of £1.5m. At the end of September, the HRA is forecasting an under spend of £71k.

	Balance at 1 April 2011	Projected Balance at 31 March 2012	Target Balance at 31 March 2012
	£'000	£'000	£'000
General Fund	10,841	10,130	10,000
Housing Revenue Account (including Rent Reserve)	4,448	5,988	4,448

2.3 The current full year projection to 31 March 2012 across the Council for the General Fund is shown in the table below.

Council Summary	Net Budget	Full year projection at September 2011	Over/(under) Budget Projection
	£'000	£'000	£'000
<u>Directorate Expenditure</u>			
Adult and Community Services	65,016	65,016	-
Children's Services	65,427	66,293	866
Customer Services	26,807	27,615	808
Finance & Resources	13,390	14,384	994
Chief Executive Office	591	424	(167)
Central Expenses	12,151	11,861	(290)
Total Service Expenditure	183,382	185,593	2,211
Planned Contribution to Balances			(1,500)
Total Projection at end of September 2011			711

Adjustments have been made to the budgets during September as part of the procurement gain-share between Elevate and the Council.

Additionally, £655k has been added to Children's Services budgets from Reserves to release the 2010/11 roll forward in respect of the Adult College. This funding from the Young People's Learning Agency is conditional on its use on the Adult College and year end balances must be carried forward in reserves.

2.4 The projection set out in the table above excludes the potential impact of cost pressures identified within the service directorates, which are more fully explained in paragraphs 2.6 to 2.12 below. Directorate management teams are actively developing action plans to control these pressures which will be monitored closely.

2.5 Directorate Performance Summaries

The key areas of potential over spend and risks are outlined in the paragraphs below.

2.6 Adult and Community Services

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	69,951	65,016	65,016
Projected overspend			-

The Adult and Community Service (ACS) budget position at month 6 of the 2011/12 financial year is projecting a break-even position for the year end.

The Directorate is experiencing severe pressures at the interface with local hospitals and the PCT at this time, which may have led to budget overspends if the Directorate had not been successful in securing through negotiation the funding 'to

support social care where it benefits health' of £2.4 million. Discussions continue with the ONEL PCT cluster about the impact of their budgetary policy on jointly commissioned services and on Council services and ultimately these may have an impact on the Directorates outturn.

Pressure is also being experienced in the Transitions from Children's area due to the increasing number of Children with care packages/arrangements turning 18. The current budgets reflect savings decisions made last year as part of the Council Tax setting process, which amounted to reductions of £4.6m from the ACS Budget this will represent a challenge to deliver without service detriment.

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

Savings targets are currently showing a potential shortfall of £200k due to pressures in the following areas:

- Community Halls – there has been a delay on the transfer of the buildings to community associations and this is a potential savings risk;
- Community Equipment – this budget has had significant pressures due to a high demand and is now showing an overspend of £100k which is being off-set by other savings within the directorate;
- Mental Health – placement budgets are experiencing pressure which they are managing through the social care funding in establishments.

The Directorate will ensure these savings are met through managing other budgets robustly.

2.7 Children's Services

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	61,913	65,427	66,293
Projected overspend			866

Children's Services are reporting a potential end of overspend risk of £866k, which they intend to reduce during the course of the year.

Children's Complex Needs and the Children's placements budget are still experiencing pressures, which if not managed, would lead to an end of year overspend of £2.7m. As part of the placements recovery plan, there is a high cost placements meeting occurring once a month to discuss how to reduce the cost of these placements, however due to the higher than average 0-17 population, the Borough is also trying to manage down the demand.

The projected overspend takes into account full achievement of the £4.5m savings to be delivered through the Placements Recovery Action Plan, as well as bringing forward several 2012/13 saving proposals into 2011/12. Projections do not take into account corporately held savings for changes to terms and conditions and procurement.

Of the £4.5m savings put forward for 2011/12, risks have been identified but it is expected that each divisional director manage these risks and deliver their savings.

2.8 Dedicated School Grant (DSG)

The Council retains £17.9m of the DSG in 2011/12 (2010/11; £16.3m).

2.9 Customer Services

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	28,202	26,807	27,615
Projected overspend			808

At the end of September 2011 Customer Services is forecasting to overspend by £808k which is £212k more than the previous month's over spend position of £596k. This movement is attributable to the parking service where it is unlikely that pressures can be fully contained.

The Directorate currently has cost pressures totalling £3.4m within the Environment and Enforcement service which have partly arisen from various delays in implementing the 2011/12 savings.

The overall savings target for Customer Services was £4.3m of which the latest forecast is that £3.3m will be delivered this year leaving a shortfall of £1.0m

However, the total pressures of £3.4m are being offset by the use of the Departmental contingency (£750k) and proposed action plans to mitigate the pressures (currently forecast as £1.9m). Therefore, there is a risk that the reported overspend above may increase if the action plans proposed are not delivered.

The main pressures are:

- Refuse income related to trade waste;
- Staff costs in refuse;
- Vehicle Fleet – continued spot hire pending supply of new vehicles under the Translinc contract;
- Rising fuel & energy prices above budgeted inflation;
- Supplies and services in relation to car parks and parking administration;
- Reduction in school buy-backs – mainly impacting on refuse and grounds maintenance;
- Temporary accommodation costs due to changes in Housing Benefit Subsidy rules. The service is addressing this through a combination of converting more expensive Private Sector Landlords on to a lower cost portfolio, as well as using the council's own properties where feasible;
- Delivery of 11/12 savings.

The Departments are currently considering further action plans to mitigate the above pressures and reduce the current predicted overspend of £808k.

2.10 Finance and Resources

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	10,388	13,390	14,384
Projected overspend			994

The Finance & Resources department is projecting an overspend which is mainly due to the Directorate inheriting the £1.4m budget pressure existing within the Revenues & Benefits service at the point of transfer.

This overspend is being largely reduced by vacant posts within the Directorate.

The Directorate is expecting to achieve its 2011/12 saving targets.

2.11 Chief Executive Office

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	1,023	591	424
Projected over/(under)spend			(167)

The Chief Executive services are projecting a £167k under spend due to part year vacancies held within the Service. Some services have experienced early budget pressures, due to a delay in implementing their new structures. Work has already commenced to ensure that the overall spend is kept within the approved budgets.

The Directorate is expecting to achieve its 2011/12 saving targets.

2.12 Central Expenses

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	(19,482)	12,151	11,861
Projected overspend			(290)

As part of the Central Expenses savings target for this year, £1.0m was planned to be generated through the implementation of revised Terms and Conditions of Employment across the Council. This has now been implemented but estimates indicate that it will not generate the full year saving included in the budget. In 2011/12, as implementation occurred part way through the financial year, only part of the saving will be achieved. An impact assessment arising from the delay in implementing this project has been undertaken and shows a £630k shortfall. A request to cover the shortfall from contingency is included in this report at paragraph 2.16.

Following a change to the Value Added Tax (VAT) liability of various Council services the Council successfully submitted a VAT claim for £420k. The claim related to VAT payments made over a number of years.

Due to the low level of interest rates a net under spend of £500k is projected against the budgets for interest payable and interest receivable.

2.13 In Year Savings Targets

The delivery of the 2011/12 budget is dependent on meeting a savings target of £20.3m. Directorate management teams are monitoring their targets and providing a monthly update of progress which is summarised in the table below. The savings shortfalls have been included in the Directorate projections set out in section 2.6 to 2.12 above. A detailed breakdown of savings is provided in appendix B.

Directorate Summary of Savings Targets	Target £'000	Projection £'000	Shortfall £'000
Adult and Community Services	4,620	4,420	200
Children's Services	4,500	4,500	-
Customer Services	4,264	3,265	999
Finance & Resources and CEO	2,960	2,960	-
Central Expenses	4,000	3,370	630
Total	20,344	18,515	1,829

2.14 Housing Revenue Account

There is a budget surplus on the HRA as at period 6 of £71k. The HRA budget includes a contribution to the HRA reserve and this surplus would result in a net contribution to reserves of £1.5m. The current budget pressures are:

- Severance costs of £161k have been offset by reduced staffing costs where there are some vacant posts. The Council was unable to capitalise the severance costs as the criteria set by government was not met;
- The projected outturn includes allowances to cover the part year costs of additional Metropolitan Police Officers as well as potential costs associated towards tendering of a new Repairs and Maintenance contract;
- Rising energy and insurance costs which may not all be recoverable until the next financial year when the costs can be passed on;
- The pressures are being offset by additional rental income from properties which are earmarked for decants. This is because the rate of decants is slower than originally budgeted for.

A detailed HRA is provided in appendix C.

2.15 Capital Programme

The Capital Programme budget has been updated to reflect the capital roll forwards approved by Cabinet on 14 June 2011 and all subsequent approvals.

Directorate Summary of Capital Expenditure	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Projected Variance £'000
Adult and Community Services	10,963	14,246	14,214	(32)
Children's Services	56,993	66,342	66,619	277
Customer Services	38,017	49,939	48,051	(1,888)
Finance & Resources	15,682	18,455	18,298	(157)
Total	121,655	148,982	147,182	(1,800)

In addition to the above projected capital expenditure, the Council has also entered into a Private Finance Initiative (PFI) with Laing O'Rourke for the construction of a new building for Dagenham Park School. The projected capital expenditure on the project for 2011/12 is £13.8m.

However, as part of the PFI contract the construction costs and associated risks are met by Laing O'Rourke and in return the Council pays an agreed annual charge. The PFI is due for completion in April 2012 with a total projected spend of £23.8m.

At the end of September 2011 the overall status of LBBDD's Capital Programme is 'Green'. All departments attained a status of 'Green' apart from Customer Services that obtained 'Amber' due to the size of the under spend.

The detailed capital Programme is available at appendix D with explanations for variances provided.

Budget adjustment requests are contained within appendix E.

2.16 Transfers From Contingency Requesting Approval

Cabinet are requested to approve a 'one-off' transfer of £630k from Contingency to offset the savings shortfall in Central Expenses. The shortfall has been caused by a delay in implementing revised staff terms and conditions as detailed in paragraph 2.12 of this report.

An 'on-going' transfer will be requested for future years at a later date. However, this will be for a lower amount.

2.17 Revenue Budget Adjustment Requesting Approval

Cabinet are requested to approve the transfer of £235k from Housing General Fund, within the Housing & Environment Division to Revenues & Benefits in the Finance & Resources Division.

The transfer relates to amounts that should have transferred to Revenues and Benefits to offset the budget gap which arose due to changes in Housing Benefit Subsidy.

2.18 Financial Control

At the end of September all key reconciliations have been prepared and reviewed and no major reconciling items unexplained.

3 Options Appraisal

The report provides a summary of the financial position at the relevant year end and as such no other option is applicable for appraisal or review.

4 Consultation

The report has been circulated to appropriate Divisional Directors for review and comment. Specific implications are noted in section 7.

Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

5 Financial Implications

This report details the financial position of the Council.

6 Legal Issues

There are no legal implications for a budget monitoring report.

7 Other Implications

- **Risk Management** (Sharon Roots)
The risk to the Council is that if spending is not managed effectively the level of balances will fall below the recommended value of £10.0m as set by the Corporate Director of Finance and Resources.
- **Customer Impact** (Paul Hodson)
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. A global equalities impact assessment was reported to Assembly as part of agreeing the 2011/12 annual budget and Council Tax.
- **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 management Issues** (Sue Lees)
Property and asset management issues are covered in the Capital section of the report, paragraph 2.15.
- **Human Resources** (Martin Rayson)
Budget plans for 2011/12 included a number of savings proposals which impacted on staff numbers employed by the Council. These were managed

according to the Council's change management policies and procedures. As referred to in section 2.12, negotiation of the collective agreement with the Trade Unions in respect of changes to terms and conditions took longer than expected and the savings levels achievable in this year are lower than planned.

8 Background Papers Used in the Preparation of the Report

- Provisional Revenue and Capital Outturn 2010/11; Cabinet 14 June 2011;
- Budget and Medium Term Plan 2011/14; Cabinet 26 February 2011.

9 Appendices

A – General Fund expenditure by Directorate

B – Savings Targets by Directorate

C – Housing Revenue Account Expenditure

D – Capital Programme

E – Requested Capital Budget Adjustments