

## CABINET

18 September 2012

<b>Title:</b> Budget Monitoring 2012/13 - April to July 2012	
<b>Report of the Cabinet Member for Finance and Education</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Divisional Director:</b> Jonathan Bunt, Divisional Director of Finance	
<b>Accountable Director:</b> Tracie Evans, Corporate Director of Finance and Resources	
<b>Summary:</b> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the four months to the end of July 2012 projected to the year end.</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 £14.3m (subject to audit).</p> <p>At the end of July 2012, total service expenditure for the full year is projected to be £178.3m against the approved budget of £177.4m; a projected over spend of £0.9m. Explanatory summaries are contained in section 2 of this report.</p> <p>The current projected over spend of £0.9m would result in the General Fund balance decreasing to £13.4m.</p> <p>The Housing Revenue Account (HRA) is projected to break even, maintaining the HRA reserve at £8.3m. 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 and the budget at the end of July stands at £195.1m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p>	
<b>Recommendation(s)</b> <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none"><li>(i) Note the projected outturn position for 2012/13 of the Council's revenue budget at 31 July 2012, as detailed in paragraphs 2.3 to 2.11 and Appendix A of the report;</li><li>(ii) Note the progress against the 2012/13 savings targets at 31 July 2012, as detailed in paragraph 2.12 and Appendix B of the report;</li></ul>	

- (iii) Note the position for the HRA at 31 July 2012, as detailed in paragraph 2.13 and Appendix C of the report;
- (iv) Note the projected outturn position for 2012/13 of the Council's capital budget at 31 July 2012, as detailed in paragraph 2.14 and Appendices D and E of the report;
- (v) Approve a one-off transfer of £310,000 from the Contingency Budget for the construction of multi-sport outdoor gyms in Central Park and St Chad's Park, as detailed in paragraph 2.15 of the report.
- (vi) Approve an on-going budget adjustment of £255,000 within the Finance & Resource Directorate from the project based activity budgets to the Customer Services Contracts & Business Improvement service, as detailed in paragraph 2.16 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 Final Outturn report to Cabinet on 26 June 2012 reported that, as at 31 March 2012, general fund balances stood at £14.3m; an increase of £3.5m on the position twelve months earlier. This position is subject to confirmation 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 and HRA revenue and capital positions. It also provides an update on progress made to date in the delivery of the agreed savings targets built into the 2012/13 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 and Education 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.

## **2 Current Overall Position**

- 2.1 The current Directorate revenue projections indicate an over spend of £0.9m for the end of the financial year of which:
  - £0.6m over spend arises in Housing and Environment due to a £0.3m pressure of housing people in temporary accommodation and a £0.3m pressure in the Environment and Enforcement Division.
  - £0.5m over spend in Finance and Resources due to pressures in the Revenues & Benefits court costs income budgets.

- (£0.2m) under spend in the Chief Executive Directorate from vacancies and sharing of the Chief Executive with Thurrock Council.

The initial forecast of a £0.9m over spend 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 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 2012 was £14.3m and the current projected balance for the end of the financial year is £13.4m.

At the end of July, the HRA is forecasting to break even and maintain the HRA reserve at £8.3m.

	<b>Balance at 1 April 2012</b>	<b>Projected Balance at 31 March 2013</b>	<b>Target Balance at 31 March 2013</b>
	£'000	£'000	£'000
General Fund	14,346	13,396	10,000
Housing Revenue Account (including Rent Reserve)	8,269	8,269	8,269

- 2.3 The current full year projection to 31 March 2013 across the Council for the General Fund is shown in the table below.

<b>Council Summary</b>	<b>Net Budget £'000</b>	<b>Full year projection at July 2012 £'000</b>	<b>Over/(under) Budget Projection £'000</b>
<u>Directorate Expenditure</u>			
Adult and Community Services	62,758	62,758	-
Children's Services	70,623	70,623	-
Housing and Environment	21,596	22,166	<b>570</b>
Finance and Resources	21,377	21,933	<b>556</b>
Chief Executive	578	402	<b>(176)</b>
Central Expenses	447	447	-
<b>Total Service Expenditure</b>	<b>177,379</b>	<b>178,329</b>	<b>950</b>

The current projection would reduce the General Fund to £13.4m, which is over the minimum level recommended by the Corporate Director of Finance and Resources.

## 2.4 Directorate Performance Summaries

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

## 2.5 Adult and Community Services

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	69,951	<b>62,758</b>	<b>62,758</b>
Projected over/(under)spend			-

The Adult and Community Services forecast outturn position at period 4 of the 2012/13 financial year is to break even.

A challenging savings target of £3.4m is built into the 2012/13 budget and, at this early stage in the financial year, the Directorate is confident these savings will be achieved.

Salary budgets have not been impacted by inflation as there was a 0% increase in 2012/13. Inflationary increase requests from care providers are being managed as robustly as possible to minimise the impact on budgets that already have significant cost pressures.

## 2.6 Children's Services

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	69,729	<b>70,623</b>	<b>70,623</b>
Projected over/(under)spend			-

At period 4 the Service is reporting a year end balanced position. There is a headline service pressure of £208k with pressures continuing in Complex Needs and Social Care relating to assessment and care management, Section 17 and SEN transport. Management actions are in place to hold back all non-essential spend in light of budgetary pressures.

## 2.7 Dedicated School Grant (DSG)

The DSG is a ring fenced grant to support the education of school aged pupils within the borough. The grant is allocated between the Schools and Centrally Retained budget in agreement with the Schools Forum. The indicative 2012/13 DSG allocation is £196.1m with £20.4m being retained centrally.

## 2.8 Housing and Environment

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	23,579	<b>21,596</b>	<b>22,166</b>
Projected over/(under)spend			<b>570</b>

The Housing and Environment General Fund budget is currently forecast to over spend by £570k. This is split between a forecast overspend position of £300k in

Environmental Services, and £270k in Housing services. This projected overspend includes the shortfall in savings outlined below.

The directorate started the year with a savings target of £2.3m. A high proportion of the savings will be fully delivered but there is currently an overall pressure of around £413k. This is mainly due to significant pressures facing the Housing General Fund in respect of temporary accommodation which in turn affects the deliverability of £250k of the £350k saving for CUS/SAV/10 (see paragraph 2.12). There are mitigating action plans being developed to deal with the shortfall.

The Environment and Enforcement service is currently forecast to over spend by £300k. In 21010/11 a zero-based budgeting exercise was undertaken and identified a £600k shortfall in the 2012/13 budget. No additional budget was provided to meet this shortfall.

The 2012/13 budget included no allowance for inflation. As at period 4, there remains a continued inflationary pressure in relation to fuel costs incurred by the large vehicle fleet used by the Housing and Environment Directorate.

## 2.9 Finance and Resources

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	25,523	<b>21,377</b>	<b>21,933</b>
Projected over/(under)spend			<b>556</b>

The Finance & Resources directorate is currently forecast to over spend by £556k. This is mainly as a result of a pressure arising from the under-recovery of court cost income in Revenues & Benefits. This pressure existed prior to transfer of the service into Elevate but has previously been contained within the overall departmental budgets.

The department is currently considering how to mitigate the overall pressures to ensure services are delivered within overall approved working budget.

For 2012/13 the department had a total savings target of £2.6m and all of the individual savings are forecast to be delivered.

The Directorate has mainly noticed inflationary pressures within the Asset & Facilities management division. There are expected increases in building cleaning materials, energy costs and building maintenance and repairs.

It is anticipated that Inflation of costs in the region of 3% will result in circa £90k pressure on current budgets. There are other expected marginal pressures with slight increases in telephone bills and travel expenses and these will be managed within existing funds.

## 2.10 Chief Executive

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	122	<b>578</b>	<b>402</b>
Projected over/(under)spend			<b>(176)</b>

The services within the Chief Executive directorate are currently forecast to under spend by £176k mainly due to part-year vacancies held within the department and a new Chief Executive shared service arrangement with Thurrock.

For 2012/13 the department had a total savings target of £2.3m and there is currently a projected shortfall in delivery of £136k in respect of the HR targets which is being managed by reductions in other expenditure.

The department has been able to manage the impact of inflation, where arising, within existing budgets

## 2.11 Central Expenses

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	(1,941)	447	<b>447</b>
Projected over/(under)spend			-

The central expenses budget is currently projecting to break even. The budget will be kept under close review as the year develops to identify any variances that may arise.

## 2.12 In Year Savings Targets

The delivery of the 2012/13 budget is dependent on meeting a savings target of £19.0m. Directorate management teams are monitoring their targets and providing a monthly update of progress which is summarised in the table below. A detailed breakdown of savings and explanations for variances is provided in appendix B.

<b>Directorate Summary of Savings Targets</b>	Target £'000	Projection £'000	Shortfall £'000
Adult and Community Services	3,392	3,392	-
Children's Services	3,410	3,410	-
Housing and Environment	2,331	1,918	<b>413</b>
Finance & Resources	2,591	2,591	-
Chief Executive	2,300	2,164	<b>136</b>
Central Expenses	5,000	5,000	-
<b>Total</b>	<b>19,024</b>	<b>18,475</b>	<b>549</b>

## 2.13 Housing Revenue Account (HRA)

The Housing Revenue Account is currently expected to break even in 2012/13.

There are some budget pressures in relation to additional work required to re-provide the service as an in-house operation.

Additional income from Right to Buy Legal and Water Commission is expected in 2012/13 and this will offset the pressures within garage rent where a rental increase for the year was not approved.

The above pressures are mitigated in year by higher than budgeted rental income through the use of decanted properties for temporary accommodation, as well as benefitting from an improved rate of return on HRA cash balances.

In 2011/12 there was a budgeted £1.4m contribution to HRA revenue reserves which led to a brought forward revenue reserves balance of £8.3m but there is no further budget contribution in 2012/13 to increase this reserve balance.

A detailed HRA is provided in appendix C.

## 2.14 Capital Programme

The Capital Programme budget has been updated to reflect the capital roll forwards approved by Cabinet on 22 May 2012 and all subsequent approvals.

<b>Directorate Summary of Capital Expenditure</b>	<b>Budget £'000</b>	<b>Projected Outturn £'000</b>	<b>Projected Variance £'000</b>
Adult & Community Services	6,063	5,965	(98)
Children's Services	63,084	61,564	(1,520)
Housing & Environment	88,112	87,558	(554)
Finance & Resources	37,796	38,322	526
<b>Total</b>	<b>195,055</b>	<b>193,409</b>	<b>(1,646)</b>

A detailed Capital Programme is provided at Appendix D.

Variances by area are summarised below:

### Adult & Community Services

- Community Services, Heritage & Libraries - (£98k) under spend

### Children's Services

- Schools – (£1,443k) under spend
- Other schemes - (£77k) under spend

### Housing & Environment

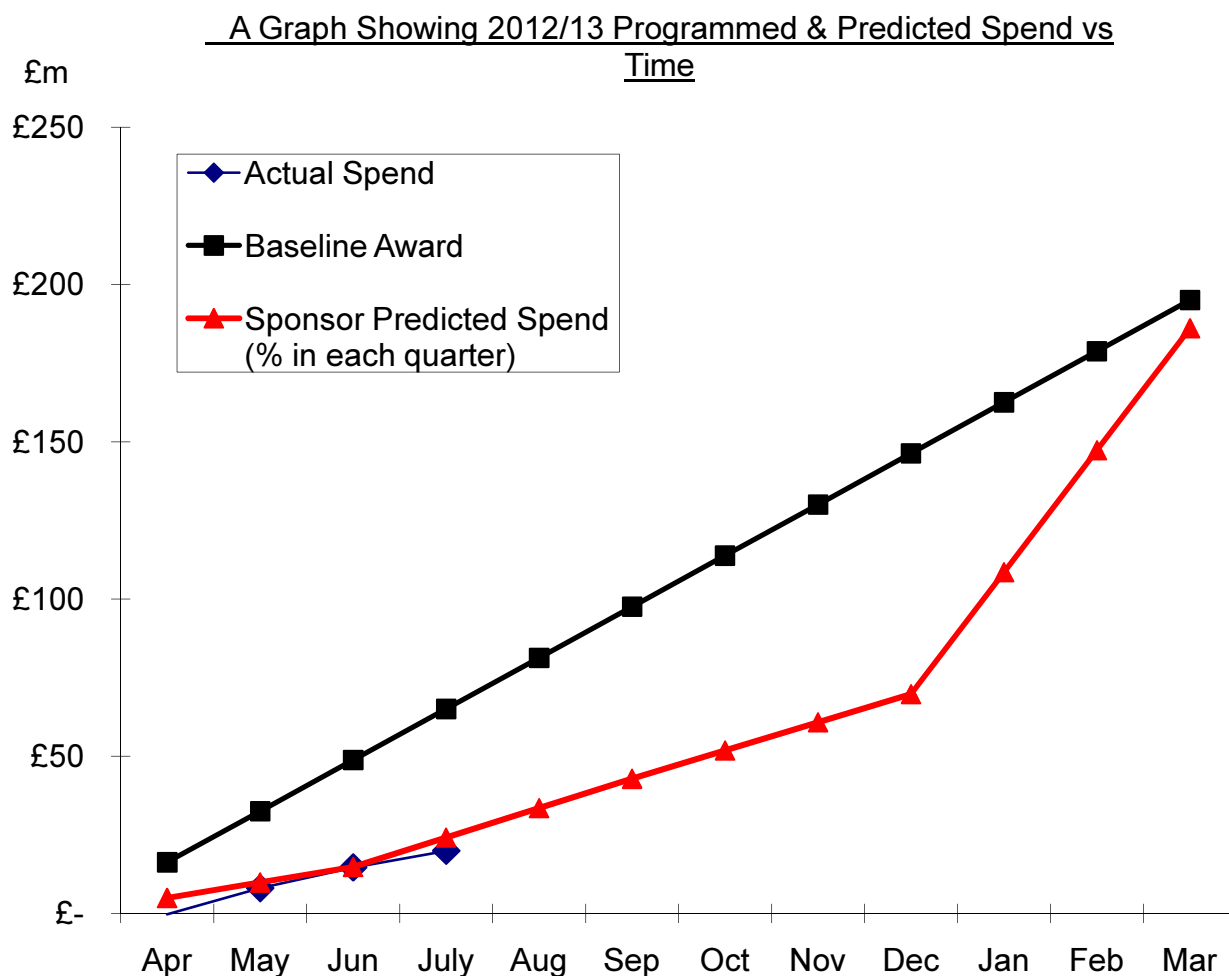
- Housing Revenue Account - (£568k) under spend
- Other schemes - £14k over spend

### Finance & Resources

- Asset Strategy - £24k over spend
- ICT – break even
- Regeneration – £502k over spend

Explanations for project variances over £100k are provided in Appendix E.

Year to date capital expenditure totals £19.9m representing only 10% of the annual budget. The following graph compares projected spend against programmed spend for the year:



This illustrates that actual spend to date is well below budgeted levels and project sponsors are forecasting that 59% of expenditure will occur in the final quarter of the financial year (January – March 2013). Given the current low level of expenditure and high degree projected towards the end of the year it is likely that the level of slippage will be higher than currently reported.

Explanations for project variances over £100k are provided in appendix E.

### 2.15 Transfer From Contingency Requesting Approval

Cabinet are requested to approve a one off transfer of £310k from contingency to fund the construction of Adizones (multi-sport outdoor gyms) in Central Park and St Chad's Park. The expenditure will be treated as a revenue contribution to capital outlay.

### 2.16 Budget Adjustments Requesting Approval

Within the Finance & Resources Directorate's budgets there are two elements which allow for annual project based activity. In the last financial year these budgets were not utilised in order to contain various pressures within the



Directorate's overall budget position. Latest forecasts indicate these pressures are likely to continue and Cabinet approval is sought to vire £255k of the project budgets to the Customer Services Contracts & Business Improvement service on an on-going basis to provide a more permanent solution to these pressures.

## **2.17 Financial Control**

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

## **3 Options Appraisal**

- 3.1 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**

- 4.1 The report has been circulated to appropriate Divisional Directors for review and comment. Specific implications are noted in section 6.
- 4.2 Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

## **5 Financial Implications**

- 5.1 This report details the financial position of the Council.

## **6 Legal Issues**

- 6.1 There are no legal implications for a budget monitoring report.

## **Background Papers Used in the Preparation of the Report**

- Final Revenue and Capital Outturn 2011/12; Cabinet 26 June 2012;
- Budget Framework 2012/13; Cabinet 14 February 2012.

## **Appendices**

- A – General Fund expenditure by Directorate
- B – Savings Targets by Directorate
- C – Housing Revenue Account Expenditure
- D – Capital Programme
- E – Explanation for Capital Variances