

CABINET

12 February 2013

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| Title: Budget Monitoring 2012/13 - April to December 2012 | |
| Report of the Cabinet Member for Finance | |
| Open Report | For Decision |
| Wards Affected: All | Key Decision: Yes |
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| Accountable Divisional Director: Jonathan Bunt, Divisional Director of Finance | |
| Accountable Director: Graham Farrant, Chief Executive | |
| Summary: <p>This report provides Cabinet with an update of the Council's revenue and capital position for the nine months to the end of December 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.</p> <p>At the end of December 2012, total service expenditure for the full year is projected to be £176.2m against the approved budget of £177.4m, a projected under spend of £1.7m. Explanatory summaries are contained in section 2 of this report.</p> <p>The current projected under spend of £1.7m would result in the General Fund balance increasing to £16.0m.</p> <p>The Housing Revenue Account (HRA) is projected to underspend by £200k, increasing the HRA reserve to £8.5m. 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, and the budget at the end of December stands at £148.3m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p> | |
| Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the projected outturn position for 2012/13 of the Council's revenue budget at 31 December 2012, as detailed in paragraphs 2.3 to 2.11 and Appendix A of the report;(ii) Note the progress against the 2012/13 savings targets at 31 December 2012, as detailed in paragraph 2.12 and Appendix B of the report; | |

- (iii) Note the position for the HRA at 31 December 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 December 2012, as detailed in paragraph 2.14 and Appendices D and 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 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.
- 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 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 under spend of £1.2m for the end of the financial year, made up as follows:
 - £0.1m over spend in Finance and Resources due to pressures in the Revenues & Benefits court costs income budgets;
 - (£0.6m) under spend in the Chief Executive Directorate from vacancies;
 - (£1.2m) under spend in Central Expenses against the interest budgets.

The initial forecast of a £1.7m under 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 and ensure a balanced position by year end to maintain the available level of balances.

- 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 £15.5m.

At the end of December 2012, the HRA is forecasting to underspend by £200k and increase the HRA reserve to £8.5m.

| | Balance at 1 April 2012 | Projected Balance at 31 March 2013 | Target Balance at 31 March 2013 |
|---|------------------------------------|---|--|
| | £'000 | £'000 | £'000 |
| General Fund | 14,346 | 16,058 | 10,000 |
| Housing Revenue Account (including Rent Reserve) | 8,269 | 8,469 | 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.

| Council Summary | Net Budget £'000 | Full year projection at Dec 2012 £'000 | Over/(under) Budget Projection £'000 |
|----------------------------------|---------------------------------|---|---|
| <u>Directorate Expenditure</u> | | | |
| Adult and Community Services | 62,982 | 62,982 | - |
| Children's Services | 70,164 | 70,164 | - |
| Housing and Environment | 21,866 | 21,866 | - |
| Finance and Resources | 21,674 | 21,794 | 120 |
| Chief Executive | 802 | 152 | (650) |
| Central Expenses | (109) | (1,271) | (1,162) |
| Total Service Expenditure | 177,379 | 176,707 | (1,692) |

The current projection would increase the General Fund to £16.0m, 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

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|----------------------------|---------------------------|-------------------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | 69,951 | 62,982 | 62,982 |
| Projected over/(under)spend | | | - |

The Adult and Community Services forecast out-turn position at the end of month 9 of the 2012/13 financial year is to break-even.

A challenging savings target of £3.392m (alongside a further £370k of Senior Manager & Policy Team savings) is built into the 2012/13 budget. There are pressures on some of the savings targets, but overall these will be managed to ensure that the savings target is delivered.

2.6 Children's Services

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|--------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | 69,729 | 70,164 | 70,164 |
| Projected over/(under)spend | | | - |

A full budget monitoring exercise was not undertaken for December as the departmental finance team was focussing on working through the financial implications of the school funding reforms. This work is now complete and full monitoring will resume for January. The high risk demand led placement budgets were however monitored and no changes from the previous month are forecast.

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

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|--------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | 23,579 | 21,866 | 21,866 |
| Projected over/(under)spend | | | - |

The Housing and Environment General Fund budget is currently forecast to break even as at period 9, which is consistent to that reported in period 8. However, there are still significant pressures within these budgets.

The main pressure is in the Housing General Fund, particularly in relation to the high numbers of homeless placements in Bed and Breakfast accommodation. These placements are a significant cost to the Council due to the benefit cap on this type of accommodation.

This pressure is being mitigated with a number of in-year actions, and there are a number of risks in the deliverability of these which are being monitored closely. In addition, there are also factors outside of the control of the service such as a higher than anticipated increase in demand for homeless placements and the prevailing market conditions within the private sector rented market. These may lead to a cost higher than the current forecast.

A freeze on spend, where possible, has also been applied to ensure that the department overall can come in on budget by year end.

The department 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 £350k. This is mainly due to significant pressures facing the Housing General Fund as mentioned above, which in turn affects the deliverability of the £350k saving for CUS/SAV/10 (see para. 2.12 and appendix B).

2.9 Finance and Resources

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|--------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | 25,523 | 21,674 | 21,794 |
| Projected over/(under)spend | | | 120 |

The Finance & Resources department is currently forecast to overspend by approximately £120k. There is a continued pressure arising from the under-recovery of court cost income in Revenues & Benefits of approximately £648k and this is being mitigated by a freeze on expenditure within the department where possible.

Further action plans are currently being formulated to further reduce the projected overspend so that the Department will break even by the year end. For 2012/13 the department had a total savings target of £2.6m and all of the individual savings are forecast to be delivered.

2.10 Chief Executive

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|--------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | 122 | 802 | 152 |
| Projected over/(under)spend | | | (650) |

The services within the Chief Executive department are currently forecast to underspend by £650k mainly as a result of vacancies held within the services and prudent use of other budgets including supplies & services and third party payments.

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 but this is being managed by reductions in other expenditure.

2.11 Central Expenses

| Directorate Summary | 2011/12 Outturn | 2012/13 Budget | 2012/13 Projection |
|-----------------------------|--------------------|-------------------|-----------------------|
| | £'000 | £'000 | £'000 |
| Net Expenditure | (1,941) | (109) | (871) |
| Projected over/(under)spend | | | (762) |

Due to the management of our cash balances a net under spend of £762k is projected against the budgets for interest payable and interest receivable.

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.

| Directorate Summary of Savings Targets | 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 | 1,981 | 350 |
| Finance & Resources | 2,591 | 2,591 | - |
| Chief Executive | 2,300 | 2,164 | 136 |
| Central Expenses | 5,000 | 5,000 | - |
| Total | 19,024 | 18,375 | 486 |

2.13 Housing Revenue Account (HRA)

The HRA is currently forecast to produce a surplus of £200k in 2012/13. There are some areas where budget pressures are being mitigated by additional income generated, or maximising interest income.

Income

There is a favourable net rental surplus of £285k being forecast, mainly arising from the short term renting of decanted properties for temporary accommodation that would have otherwise remained void pending demolition/refurbishment. In addition, there will be income from higher than anticipated water charges of £341k.

The HRA is also benefitting from an estimated additional £474k of interest on cash balances. This has arisen as a prompt and conscious response to elements of the capital schemes needing longer than was originally anticipated. This unanticipated income has helped to offset a £166k pressure due to delays in implementation of the Garage strategy. Adding all items together, the net favourable variance in the income budgets is £934k.

Expenditure

There are one-off costs of £450k in relation to additional work required to implement the new Repairs & Maintenance service contract. This will become an in-house operation and will lead to annualised savings in future greater than any implementation costs. These costs are currently being contained within the overall R&M budget, which is only forecasting a pressure of £130k (net of works that are capitalised).

There is a further nominal pressure in Supervision & Management relating to energy costs of £200k, which will be carried forward to next year,, and water charges of £341k which will be recovered from the tenants and leaseholders this year, as shown above.

Other pressures are:

- a one- off charge from the Housing Strategy team for the additional work involved in the implementation of the new HRA Business Plan and asset management strategy of £200k;
- staffing spend above budget of £420k; and
- increased transport costs of £170k.

Items offsetting these pressures are:

Complementary to the interest earned on improved cash flow due to the extended capital programme, interest of £324k on predicted borrowing in 2012/13 of £8.5m for the Decent Homes capital programme will not now be paid. In addition a reduced estimate for in-year debt write offs by £109k and a council tax voids by £94k, will reduce the total pressure on HRA expenditure. Adding all these items together, the net unfavourable variance in the spend budgets is £734k.

HRA Balance

When put together with the favourable variance from the income budgets, the overall impact is that the net spend is a surplus of £200k. The HRA maintains revenue reserves balance of £8.3m. Currently it is anticipated that this £200k surplus would be used to increase the balance to £8.5m by the end of 2012/13. There is also a budgeted contribution to capital resources of £36.688m, and this is forecast to be achieved.

2.14 Capital Programme

The Capital Programme forecast is as follows:

| Directorate Summary of Capital Expenditure | Budget £'000 | Actual Year to Date £'000 | Projected Outturn £'000 | Projected Variance £'000 |
|---|-------------------------|--|--|---|
| Adult & Community Services | 6,110 | 3,223 | 6,013 | (97) |
| Children's Services | 64,117 | 23,186 | 36,299 | (27,818) |
| Housing & Environ (non HRA) | 7,637 | 5,748 | 7,870 | 233 |
| HRA | 51,670 | 16,873 | 35,048 | (16,622) |
| Finance & Resources | 18,740 | 4,576 | 14,343 | (4,397) |
| Total | 148,274 | 53,606 | 99,573 | (48,701) |

A detailed Capital Programme forecast is provided at Appendix D.

Variances by area are largely due to slippage and are summarised below:

Adult & Community Services

- Community Services, Heritage & Libraries – (£91k) under spend
- Leisure Services – (£6k) under spend

Children's Services

- Schools – the under spend is largely due to the £26.9m under spend reported last month, around slippage on Schools Places programme. This will be re-profiled into 2013/14 to reflect the plans reported to the meeting of the Cabinet on 13 November 2012 (Minute 51), which identified projects to be undertaken in relation to Basic Needs grant funding from the government of £75.6m.

Housing & Environment

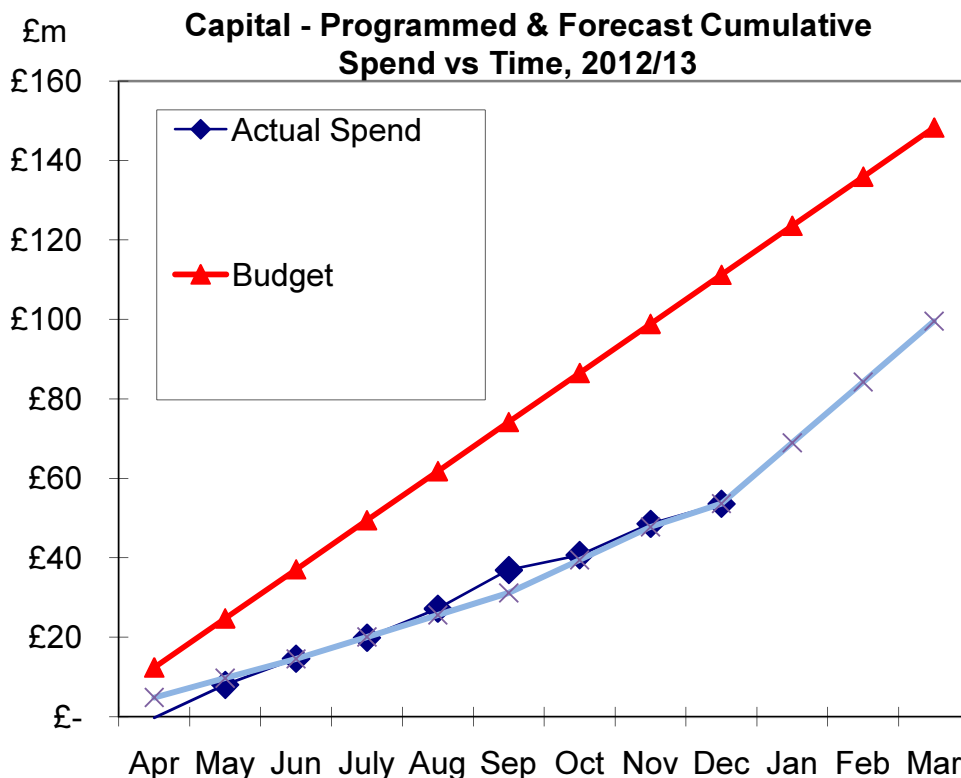
- Housing Revenue Account – (£16.6m) under spend to be re-profiled into 2013/14.
- Environment - £233k over spend largely around implementation of the parking strategy.

Finance & Resources

- Asset Strategy – (£20k) under spend
- ICT – (£1,147k) slippage on Oracle R12 project
- Regeneration – (£230k) under spend
- Capitalisation of redundancies – (£3m) under spend. There will not be a capitalisation directive from central government this year for authorities to apply to capitalise these costs. Any statutory redundancy costs this year will have to be met from revenue.

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

Year to date capital expenditure totals £53.6m representing only 54% of the total forecast after three quarters of the financial year. The following graph compares projected spend against programmed spend for the year:



This illustrates that actual spend to date is well below budgeted levels (after re-profiling) and project sponsors are forecasting that expenditure will double to approximately £100m in the last three months of the financial year.

2.15 Financial Control

At the end of December 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.

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 Local authorities are required by law to set a balanced budget for each financial year. During the year there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

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