

CABINET

23 JULY 2013

Title: Budget Monitoring 2013/14 - April to May 2013	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Steve Pearson, Group Accountant, Corporate Finance	Contact Details: Tel: 020 8227 5215 E-mail: steve.pearson@lbbd.gov.uk
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 two months to the end of May 2013 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 £17.5m.</p> <p>At the end of May 2013 (Month 2), total service expenditure for the full year is projected to be £171.7m against the approved budget of £178.1m, a projected surplus of £6.4m. This compares to the planned surplus of £5.2m agreed at Assembly in February 2013, which arose due to late grant determination (Education Support grant (ESG)) and the decision to use a two year strategic approach to addressing funding issues in 2015/16. Explanatory summaries are contained in section 2 of this report.</p> <p>The current projected surplus of £6.4m would result in the General Fund balance increasing to £23.9m.</p> <p>The Housing Revenue Account (HRA) is projected to breakeven, maintaining the HRA reserve at £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 forward requests, changes approved at Cabinet, and further adjustments requested. The budget at the end of May stands at £178.6m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p>	
Recommendation(s)	
The Cabinet is recommended to:	
(i) Note the projected outturn position for 2013/14 of the Council's revenue budget at 31 May 2013, as detailed in paragraphs 2.3 to 2.11 and Appendix A of the report;	

- (ii) Note the progress against the 2013/14 savings targets at 31 May 2013, as detailed in paragraph 2.12 and Appendix B of the report;
- (iii) Note the position for the HRA at 31 May 2013, as detailed in paragraph 2.13 and Appendix C of the report;
- (iv) Note the projected outturn position for 2013/14 of the Council's capital budget at 31 May 2013, as detailed in paragraph 2.14 and Appendix D; and
- (v) Approve the reprofiled capital programme as detailed in Appendix D, plus adjustments detailed in paragraph 2.12.

Reason(s)

As a matter of good financial practice, the Cabinet should be regularly updated with the position on spend against 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 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 2013/14 budget setting out risks to anticipated savings and action plans to mitigate these risks.
- 1.2 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.
- 1.3 The Budget report to Assembly in February 2013 provided for a target of £15m of General Fund balance, plus a planned surplus of £5.234m to be generated in 2013/14 and carried forward into 2014/15. The Outturn for 2012/13 led to a General Fund balance of £17.456m. The current projected position keeps the Council on track to deliver a balanced budget and maintain the minimum general fund balance of £15m.

2 Current Overall Position

- 2.1 The following tables summarise the spend position and the forecast position of the General Fund and Housing Revenue Account (HRA) balances.

Council Summary	Net Budget	Full year forecast at end May 2013	Over/(under) spend Forecast
	£000	£000	£000
Directorate Expenditure			
Adult and Community Services	57,202	57,202	-
Children's Services	67,954	67,954	-
Housing and Environment	22,658	22,658	-
Chief Executive	19,705	19,508	(197)
Central Expenses	5,359	4,359	(1,000)
	172,878	171,681	(1,197)
Budget Surplus (Agreed MTFS)	5,234	-	(5,234)
Total Service Expenditure	178,112	171,681	(6,431)

	Balance at 1 April 2013	Forecast Balance at 31 March 2014	Budgeted Combined Balance at 31 March 2014*
	£000	£000	£000
General Fund	17,456	23,887	20,234
Housing Revenue Account (including Rent Reserve)	8,461	8,461	8,461

*Budget Combined Balance for General Fund comprises a target balance of £15m plus budgeted surplus of £5.2m

2.2 The current Directorate revenue projections indicate a surplus of £6.4m for the end of the financial year, made up as follows:

- £0.2m underspend in the Chief Executive department as a result of shared arrangements with Thurrock Council and vacancies within Legal and Democratic services;
- £1m surplus in Central Expenses arising from interest budgets; and
- £5.2m surplus as planned and agreed in the MTFS 2013/14.

The initial forecast of a £6.4m underspend would result in the Council's General Fund balance remaining above the budgeted target of £15.0m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances.

The Chief Finance Officer, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003 and the other financial provisions and contingency budgets held by the Council, set a target GF reserves level of £15.0m. The General Fund balance at 31 March 2013 was £17.5m and the current forecast combined balance for the end of the financial year is £23.9m. If maintained, this position will provide added flexibility for the Council in addressing the forthcoming significant further reductions in funding from the government. This

compares with a budgeted combined General Fund balance of £15m plus a planned surplus of £5.2m within the two year 2013-15 strategy.

At the end of May 2013, the HRA is forecasting to break even, and maintain the HRA reserve at £8.5m.

2.3 Directorate Performance Summaries

The key areas of risk which might lead to a potential overspend are outlined in the paragraphs below.

2.4 Adult and Community Services

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	60,701	57,202	57,202
Projected over/(under)spend			-

The Adult and Community Services forecasted position at period 2 is to break-even. There are a number of pressures within the services particularly for Mental Health placements and personal budgets, and direct payments for all client groups. These pressures are either being managed within the service or funding will be drawn down from the ACS reserve created in 2012/13.

A challenging savings target of £4.324m is built into the 2013/14 budget. There are pressures on some of the savings targets, and these are being reviewed and addressed in order to ensure their delivery.

2.5 Children's Services

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	69,448	67,954	67,954
Projected over/(under)spend			-

The Children's Service still experiences significant demand pressures within the Complex Needs and Social Care division. Referral activity had increased consistently since the end of 2012 and shows no sign of reducing which suggests more of a trend rather than a 'spike' in demand. In 2012/13 the number of core assessments was double the level of 2011/12 and section 47 child protection investigations increased by 37% over 2012/13.

The OFSTED Safeguarding and Looked After Children inspection of June 2012 reported that caseloads were high but manageable. However, the persistent increases in demand since then have required additional resourcing to ensure risks are managed. This brings an increased pressure on the revenue account. Although the service is forecasting a balanced budget position for 2013/14 this is masking £4m of management actions, a number of which are one-off and will not continue into 2014/15.

The change from LACSEG (Local Authority Central Spend Equivalent Grant) to Education Support Grant, and the changes to the funding of statutory services to two year olds from General Fund to the Dedicated Schools Grant have released £2.7m of ongoing funding to invest in social care demand pressures. Grant income of £604k is available in 2013/14 to manage pressures but, at present, there is no indication this will continue into 2014/15.

The Targeted Support Division is forecasting an underspend in 2013/14 of £1.060m but this is largely as a result of the early achievement of approved savings for 2014/15 which means this is unlikely to continue into 2014/15. Finally, a drawdown of £0.754m will be required from the Children's Services Reserve to achieve a balanced budget position for 2013/14.

2.6 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 £218m which is inclusive of pupil premium and sixth form funding.

2.7 Housing and Environment

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	24,040	22,658	22,658
Projected over/(under)spend			-

The Housing and Environment General Fund budget is currently forecast to breakeven. Whilst it is relatively early in the year, there are potential pressures which have been identified within these budgets. It is expected that these pressures will be managed within the service.

The pressures relate mainly to the achievement of Parking Income budget, where early indications show lower than normal issues of PCNs. The service is also undergoing significant system upgrades and structural changes designed to make the service more efficient. The benefits of these changes should start to be realised towards the latter part of the year. The Parking Service is in the process of bidding for additional capital funding which will be invested in schemes to deliver additional income. This would also contribute to mitigating the risk of net spends over budget.

There is potential risk 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 cap on benefits on this type of accommodation.

Members agreed a growth of £0.5m as part of 2013/14 budget setting. This has helped the Housing Service mitigate some of this pressure. The pressure is also 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.

The department started the year with a savings target of £1.67m. A high proportion of the savings will be fully delivered but there is currently an overall pressure of

around £0.044m. This is mainly due to the pressures facing the Environmental Services budget.

The main risks to the forecast position are parking income and temporary accommodation. Both will be monitored closely during the year with forecasts updated as necessary.

There is additional risk within Housing & Environment and the Housing Revenue Account due to the potential impact of Welfare Reform. It is difficult to project the extent of the financial impact at this stage. However, the combination of the bedroom tax, benefit cap and Universal Credit are expected to impact income levels within the HRA as well as possibly leading to more homelessness cases within the General Fund. Particular attention will be given to monitoring income in view of these changes.

2.8 Chief Executive Department

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	19,059	19,705	19,508
Projected (under)spend			(197)

The Chief Executive department has been expanded, to include the former Finance and Resources department.

At this early stage in the financial year, the department is currently projecting a £0.197m underspend. This position is mainly as a result of underspends in the Legal and Democratic Services division and savings arising from the interim shared Chief Executive arrangement with Thurrock Council.

The performance of each division, including potential issues arising and actions being undertaken, are highlighted below.

2.9 Central Expenses

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	1,021	5,359	4,359
Projected over/(under)spend			(1,000)
Budget Surplus (Agreed MTFS)		5,234	-
Projected Surplus			(5,234)

There is a (£1m) surplus expected due to the management of our cash balances enabling a lower than budgeted cost to be charged to the General Fund in 2013/14. As planned within the MTFS a budget surplus of £5.2m has been built into the base budget and the current position is projected to meet this target.

2.10 In Year Savings Targets

The delivery of the 2013/14 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	Forecast £000	Shortfall £000
Adult and Community Services	4,324	3,846	478
Children's Services	2,708	2,708	-
Housing and Environment	1,665	1,621	44
Chief Executive	2,740	2,583	157
Central Expenses	5,192	5,192	-
Total	16,629	15,950	679

2.11 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven in 2013/14.

The breakdowns of the main offsetting income and expenditure variances are listed below:

Income

There is a favourable net rental surplus of £0.47m forecast, mainly arising from the short term renting of decanted properties for temporary accommodation that would have otherwise remained void pending demolition/refurbishment. This has also improved the void figures.

However, increased voids on garages (£0.147m) as well as the bringing the demolition forward of some estate renewal blocks means that there is a pressure on service charge recovery (£0.487m) more than offsetting the favourable rental income variances above.

The introduction of Welfare Reform this year is expected to increase pressure on the HRA, although it is difficult to project the extent at this stage. The combination of the bedroom tax, benefit cap and Universal Credit are expected to impact income levels. Whilst some provision has been made within the budget through increased bad debt provision, and the availability of discretionary housing payments, the actual position is being monitored closely.

Adding all items together, the net pressure in the income budgets is £0.164m.

Expenditure

It is not possible to provide a full projection on the R&M in-house function for May due to ongoing systems issues. The issues are being resolved by the Service and reporting is anticipated to start from June. The system issues impact the transfer of financial data into Oracle through interface, which means that Oracle does not currently show completed job costs or an accurate position. However, early

indications are that there may be pressures relating to the set up of the DLO in the region of £0.2m (this is currently not in the projection).

There are further pressures in Supervision & Management (S&M) relating to staffing and transport costs. Current projections indicate that expenditure pressures will be managed through underspends on other budgets.

The main risks to the HRA expenditure position are within locality spend and savings delivery. Whilst the service has been aligning itself to provide its services through the locality structures, it has been required to hire additional agency staff and vehicles to cover estate services. Current costs show a possible pressure in the region of £1.3m which will be managed through expenditure savings within the HRA.

As part of the 2013/14 budget agreed by February Cabinet, the service made commitment to deliver value for money savings to the tune of £1.4m from its S&M budget. Of the savings options identified and currently going through validation process, approximately £1m is non-staff related and forecast to be achievable. The remaining £0.4m is subject to staffing restructures and if not delivered will create a pressure.

Other surpluses and underspends, added to the above total gives a net surplus of £164m on expenditure.

HRA Balance

Overall, the HRA is forecasting to breakeven.

The HRA maintains revenue reserves balance of £8.5m. Currently it is anticipated that this will be maintained at £8.5m by the end of 2013/14.

There is a substantial budgeted contribution to capital resources of £35.5m in 2013/14. This may be reviewed to accommodate expenditure pressures.

2.12 Capital Programme

Cabinet approved a budget of £157.818m in Feb 2013. In May and June Cabinet agreed year end roll-forwards and adjustments for 2012/13 of £20.807m resulting in a total budget of £178.625m for 2013/14.

At the end of period 2 budget holders have forecast a number of potential under and overspends in 2013/14 against the revised budget of £178.625m. This is mainly due to a revision in the timescales of capital schemes after a comprehensive exercise was carried out reprofiling some schemes into future years whilst accelerating others in 2013/14. Budgets will be reprofiled accordingly in order to establish and reinforce a robust and deliverable capital programme in future years. The current forecasts are shown below

Directorate Summary of Capital Expenditure	Budget £000	Actual Year to Date £000	Forecast Outturn £000	Projected Variance £000
Adult & Community Services	7,926	178	8,482	556
Children's Services	60,532	1,832	53,192	(7,340)
Housing & Environment (non HRA)	3,174	434	3,361	187
HRA	92,392	1,422	74,455	(17,397)
Finance & Resources	14,601	(380)	14,393	(208)
Total	178,625	3,486	153,883	(24,742)

Cabinet is requested to approve a reprofiling of capital budgets as outlined in Appendix D. This will enable the capital programme to forecast against a deliverable budget in 2013/14 in line with expected project timetables. The revised budget for each Directorate is summarised in the table below:

Directorate Summary of Capital Expenditure	Current Budget £000	Revised Budget £000	Change £000
Adult & Community Services	7,926	8,482	556
Children's Services	60,532	53,192	(7,340)
Housing & Environment (non HRA)	3,174	3,361	187
HRA	92,392	74,455	(17,937)
Finance & Resources	14,601	14,393	(208)
Total	178,625	153,883	(24,742)

Additionally, £0.4m is needed for the Direct Payments Adaptations scheme, to be funded from Corporate Contingency. This will create a base budget enabling people who are not eligible for help via other schemes to arrange basic adaptations for themselves with a maximum grant of £4,000.

Complementary to this, it is proposed to add £0.575m Disabled Facilities Grant received from Communities Local Government for 2013/14, enabling adaptations for people living in privately owned and rented properties.

Furthermore the Department of Health has announced a further allocation of capital monies to support adult social care services. The allocation for Barking and Dagenham is £0.491m in 2013-14 and £0.501m in 2014-15. This new Community Capacity Grant can only be used to support adult social care functions and has a number of grant conditions. It is proposed that these monies are used to improve the social care offer to older people in the borough and the allocation should now be added to the Council's Capital programme. Officers will bring back specific proposals for Member approval in future meetings

2.13 Financial Control

At the end of May all key reconciliations have been prepared and reviewed, and there are 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 relevant elements of 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 2012/13; Cabinet 25 June 2013;
- Budget Framework 2013/14; Cabinet 12 February 2013.

Appendices

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