CABINET

24 September 2013

Title: Budget Monitoring 2013/14 - April to July 2013 (Month 4)	
Report of the Cabinet Member for Finance	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
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Accountable Divisional Director: n/a	
Accountable Director: Jonathan Bunt, Chief Finance Officer	

Summary:

This report provides Cabinet with an update of the Council's revenue and capital position for the four months to the end of July 2013 projected to the year end.

The Council began the current financial year in a stronger financial position than the previous year with a General Fund (GF) balance of £17.5m.

At the end of July 2013 (Month 4), total service expenditure for the full year is projected to be £171.3m against the approved budget of £178.3m, a projected surplus of £7.0m. This compares to the planned surplus of £5.2m agreed at Assembly in February 2013, which arose due to a 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.

The current projected surplus of £7.0m would result in the General Fund balance increasing to £24.4m.

The Housing Revenue Account (HRA) is projected to break even, maintaining the HRA reserve at £8.5m. The HRA is a ring-fenced account and cannot make/receive contributions to/from the General Fund.

The Capital Programme has been updated to reflect changes approved at Cabinet, and further adjustments requested. The proposed budget will be £129.6m. Capital budgets cannot contribute to the General Fund or HRA revenue position although officers ensure that all appropriate capitalisations occur.

Recommendation(s)

The Cabinet is recommended to:

(i) Note the projected outturn position for 2013/14 of the Council's revenue budget at 31 July 2013, as detailed in paragraphs 2.3 to 2.9 and Appendix A of the report;

(ii) Note the progress against the 2013/14 savings targets at 31 July 2013, as detailed in paragraph 2.10 and Appendix B of the report;

(iii) Approve the charges for Scrap Metal licences as set out in paragraph 2.11 of the report;

(iv) Note the position for the HRA at 31 July 2013, as detailed in paragraph 2.12 and Appendix C of the report;

(v) Note the projected outturn position for 2013/14 of the Council's Capital Programme at 31 July 2013, as detailed in paragraph 2.13 and Appendix D of the report;

(vi) Approve the reprofiled Capital Programme as detailed in paragraph 2.13 and Appendix D; and

(vii) Approve the use of £0.288m of the centrally held contingency for essential highways safety works as detailed in paragraph 2.13 (c) of the report.

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 balances, 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 at least £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 July 2013	Over/(under) spend Forecast
	£000	£000	£000
Directorate Expenditure			
Adult and Community Services	57,349	57,349	**-**
Children's Services	68,509	68,509	**-**
Housing and Environment	23,581	23,581	**-**
Chief Executive	21,645	21,302	**(343)**
Central Expenses	2,014	614	**(1,400)**
	173,098	**171,355**	**(1,743)**
Budget Surplus (Agreed MTFS)	5,234	-	**(5,234)**
Total Service Expenditure	**178,332**	**171,355**	**(6,977)**

	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	24,433	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 £7.0m for the end of the financial year, made up as follows:

- £0.343m underspend in the Chief Executive department as a result of shared arrangements with Thurrock Council and vacancies within Legal and Democratic services;
- £1.4m surplus in Central Expenses arising from interest budgets; and
- £5.234m surplus as planned and agreed in the MTFS 2013/14.

The initial forecast of a £7.0m 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 levels of 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 £24.4m. 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 July 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	**57,349**	**57,349**
Projected over/(under)spend			**-**

The Adult and Community Services directorate is forecasting a balanced budget position for 2013/14. It is important to note this reported position is masking a number of pressures within the service, particularly for Mental Health (£400k) and personal budgets & direct payments for all client groups (£924k). These pressures are being managed by management actions within the service and draw down from funding set aside to offset anticipated service pressures.

Looking forward the future funding regime is going to become increasingly difficult with a number of existing funding streams being rolled up into a single grant that the local authority will have to agree with NHS England following local agreement through the Health and Wellbeing Board. This comes at the same time as the planned implementation of the Care and Support Bill with significant costs for local authorities.

A challenging savings target of £4.324m is built into the 2013/14 budget. There are pressures against some of the savings, these are being reviewed and addressed in order to ensure their delivery. The net budget includes the full allocation of £3.268m social care funding transfer from NHS England, this is allocated by local Section 256 agreement taken to Health and Wellbeing Board.

2.5 **Children's Services**

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	69,448	**68,509**	**68,509**
Projected over/(under)spend			**-**

The Children's Service delivered a balanced budget for 2012/13 but it was reported that this financial position was masking significant demand pressures within the Complex Needs and Social Care division. As at the end of 2012/13 referral activity had increased consistently since the start of 2013 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 has increased by 37% over 2012/13 levels. The OFSTED Safeguarding and Looked After Children inspection of June 2012 reported that caseloads were high but manageable. However, increases in demand at the end of 2012 persisting into 2013 have required additional resourcing to ensure risks are more manageable.

The increases in demand and mitigating actions bring with it an increased pressure on the revenue account. Although the service is forecasting a balanced budget provision for 2013/14 this is masking £4.1m of management actions, a number of which are one-off and will not continue into 2014/15:

- The change from LACSEG to Education Support Grant and the changes to the funding of statutory services for two years olds from General Fund to the Dedicated Schools Grant have released £2.7m of ongoing funding;
- Grant flexibility of £604k is available in 2013/14 but, at present, there is no confirmation this grant will continue in 2014/15;
- A draw down of £857k from the Children’s Services set aside funds brought forward.

The £4.1m of management actions is also being supported by current underspends in Targeted Support and Commissioning and Safeguarding of £1.2m but these are largely as a result of the early achievement of approved savings for 2014/15 which means the forecast under spend is unlikely to continue into the next financial year.

The Children’s Service set aside funds brought forward are estimated to last until the end of 2014/15.

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 2013/14 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	**23,581**	**23,581**
Projected over/(under)spend			**-**

The Housing and Environment General Fund budget is currently forecast to breakeven as at period 4. Whilst it is relatively early in the year, there are potential pressures which have been identified within these budgets. It is expected that pressures will be managed within the service.

The main area of pressure relates to the achievement of Parking budgets, where early indications show fewer than normal issue of PCNs. The service is also undergoing significant system upgrades and structural changes designed to make the service more efficient and the benefits of those should arise 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 improved efficiency and effectiveness. This will contribute to mitigating the risk.

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. Pressure is being mitigated within the service.

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 £44k. This is mainly due to the pressures facing the Environmental Services budget.

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.

2.8 Chief Executive Department

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	19,059	**21,645**	**21,302**
Projected (under)spend			**(343)**

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

The Chief Executive (CEX) department is currently forecast to underspend at year end by £343k. This position is mainly as a result of in year vacancies that have arisen across the divisions and prudent use of supplies and services budgets.

It should also be noted that the Assets & Facilities Management section has been split and the Facilities Management teams have now transferred to the Housing & Environment department. The teams retained within the CEX department's Asset Management division are Asset Strategy and Energy & Compliance.

2.9 **Central Expenses**

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	1,021	**2,014**	**614**
Projected (under)spend			**(1,400)**
Budget Surplus (Assembly agreed MTFS)		**5,234**	**-**
Projected Surplus			**(5,234)**

There is a (£1.4m) surplus expected due to the management of our cash balances enabling a lower than budgeted cost for the revenue implications of capital financing to be charged to the General Fund in 2013/14. Should the overall financial position of the Council remain broadly unchanged to year end, it is anticipated that a request will be made to use this element to reduce the Council's overall debt position, in order to secure recurring revenue benefits which will ease pressure for further operational savings.

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 - General Fund**

The delivery of the 2013/14 budget is dependent on meeting a savings target of £16.6m. 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	4,229	**95**
Children's Services	2,708	2,708	**-**
Housing and Environment	1,665	1,621	**44**
Chief Executive	2,733	2,583	**150**
Central Expenses	5,199	5,199	**-**
Total	**16,629**	**16,340**	**289**

2.11 **Charges for Scrap Metal licences**

New legislation for scrap metal licensing will be reported to Licensing Board on 23 September 2013. The Act gives Councils more powers to regulate and license scrap dealing from domestic premises and regulate both site and mobile operators or collectors. It comes into force on 1 October 2013 and there are transitional arrangements for those currently registered with the council to allow for applications to be submitted up to 15 October 2013.

This is a significant change in that previously dealers were only required to register with the Council. There will now be a fee charged and mobile operators will be required to hold photo ID and to display their license on their vehicles. Each local authority requires separate registration which will impact more directly on mobile operators. Licences will be valid for 3 years.

It will be an offence to carry on a business as a scrap metal dealer in breach of the requirement to hold a licence. Conviction fines may be up to £5,000.

Guidance on the setting of fees was issued on 16 August and London Local Authorities met to consider the guidance on the 29 August

Fees have been set based on the proportionate time and applicable officer rates for the allowable activities together with proportionate overhead recharges. In future fees will be reviewed as part of the Council's annual fees and charges process and to maintain transparency around the fee setting process.

The Council's Scheme of Delegation places the responsibility for assessing and determining fees and charges with the Cabinet. In order for the Council to comply with the transitional arrangements and to be able to accept and process applications from 1st October 2013, the following fee structure is proposed:

3 Year Site License

New	Renewal	Variation
£420	**£320**	**£155**

3 Year Collectors License

New	Renewal	Variation
£250	**£170**	**£105**

2.12 **Housing Revenue Account (HRA)**

The HRA is currently forecast to breakeven in 2013/14. Although the overall position is not expected to change, there are a number of variances that are offsetting each other.

Income - Increased voids on garages of £141k as well as other smaller pressures give a net pressure in the income budgets of £160k.

Expenditure - It is not yet possible to provide a full projection on the R&M in-house function for July due to ongoing systems issues. The issues are being resolved by the service and we expect full reporting from August. Early indications are that there may be pressures relating to the set up of the DLO in the region of £290k due to one-off procurement costs and severance payments following reintegration of the service.

There are further pressures in Supervision & Management relating to staffing and transport costs. The service is in the process of aligning to the Localities structure and evaluating budget requirement. Current projections indicate that expenditure pressures will be managed through underspends on other budgets.

As part of the 2013/14 budget agreed by February Cabinet, the Service committed to delivering savings of £1.4m from its Supervision & Management 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 £400k is subject to staffing restructures and if not delivered will add to the pressure.

As with the General Fund, the introduction of welfare reform this year is expected to increase pressure on the HRAwith the combination of the bedroom tax, benefit cap and Universal Credit impacting on income levels. Some provision has been made within the budget through increased bad debt provision plus the availability of discretionary housing payments. The actual position is being monitored closely.

HRA Balance - Overall, the HRA is forecasting to breakeven. The HRA started the year with revenue reserves balance of £8.461m. Currently it is anticipated that this will be maintained at £8.461m by the end of 2013/14.

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

2.13 **Capital Programme**

a) Approved programme
The total approved capital programme currently stands at £155.349m. This comprises the £153.884m presented to Cabinet at its last meeting, plus the £1.465m of new additions within Adult Social Care also approved by Cabinet at its last meeting.

This month, Cabinet is asked to approve an increase in the HRA capital budget of £13.399m, as shown in the table below, in order to bring the total from £74.455m up to £87.854m. This follows a detailed review of scheme budgets within the programme. This budget, combined with the budget for Disabled Adaptations of £583k which sits within the ACS departmental total, forms the total HRA funded programme for 2013/14 of £88.437m. A detailed breakdown of this budget is shown in Appendix D.

The current spend forecasts are shown below:

	Current Budget £'000	Revised Budget £'000	Actual Year to Date £'000	Projected Outturn £'000	Variance against Budget £'000
Adult and Community Services	9,948	9,948	550	9,975	27
Children's Services	53,192	16,542	7,728	22,089	5,547
Housing and Environment (non HRA)	3,361	3,839	1,565	4,146	307
HRA	74,455	87,854	8,675	87,854	-
Chief Executive	14,393	11,393	1,096	10,801	(592)
Total	**155,349**	**129,576**	**19,614**	**134,865**	**5,289**

The Year to date capital expenditure total is £19.6m, which represents only 15% of the total forecast for the financial year. This leaves 85% of the projected expenditure to be spent in the remaining 8 months of the year, thus giving a risk that the approved programme may not be fully delivered this year. The Finance Service will continue to monitoring this closely in conjunction with service Project Managers and Sponsors, in order to identify any potential year-end underspends or slippage as early as possible.

The forecast for the year currently shows a projected £5.289m unfavourable variance compared to projected spend. This is mainly within Children's Services and is likely to be removed as the Basic needs funding is allocated. It is anticipated that this will happen at the next re-profiling exercise at Month 6, and be reported to Cabinet in November.

Environment is currently showing an overspend of £307k. This mostly relates to a roll-forward from 2012/13 in respect of Parking Strategy Improvements,

Chief Executive Directorate is currently reflecting an underspend of £592k. This includes London Road/North Street Acquisitions (£235k), the LEGI business centres (£100k), and the corporate accommodation strategy (£126k).

b) Funding with projects being developed

The existing Capital Programme includes £35.8m in respect of schools Basic Needs Funding where the projects are currently in the process of being developed. It is proposed to remove these from the Capital Programme until the projects are identified and robust schemes produced. Once this has happened they will be brought forward for approval and addition to the Capital Programme.

Future reports will include all sums with funding identified but projects not developed as a separate part of this report. This will ensure that the Capital Programme monitor only reflects schemes where there is an active project plan to monitor progress against.

c) Proposed additions/deletions to the Capital Programme

In 2012 capital investment was established to resurface carriageways, with a projected spend of £6m over two years. This programme channelled investment into the resurfacing of carriageways around schools and prioritised those in the worst condition according to safety inspections. A total of 67 roads were resurfaced, bringing them up to a safe standard and extending their life by a further 15 years.

Our engineers have identified a further three roads that require urgent works to resurface carriageways.

A further £288,000 is required. It is proposed that this is funded from the Council's central contingency. The condition of roads are under constant review and when other roads are identified, they will be brought to Cabinet.

The existing capital programme included provision for the capitalisation of staff redundancies. The government has now flagged that it will not provide approval for capitalisation of staff redundancies until this sum is over £8m. It is highly unlikely the Council will reach this level, even with the pressures encountered in 2015/16, so these costs will need to be met from revenue reserves.

2.14 **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; Assembly 25 February 2013.

Appendices

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