

## CABINET

21 January 2014

<b>Title:</b> Budget Monitoring 2013/14 - April to November 2013 (Month 8)	
<b>Report of the Cabinet Member for Finance</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> No
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<b>Accountable Director:</b> Jonathan Bunt, Chief Finance Officer	
<b>Summary</b> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the eight months to the end of November 2013, projected to the year end.</p> <p>The Council began the current year in a better financial position than the previous year with a General Fund (GF) balance of £17.5m.</p> <p>The Council's approved budget of £178.3m for 2013/14 includes a budgeted surplus of £5.2m, agreed by Assembly in February 2013. The budgeted surplus is earmarked to address the funding issues of 2014/15.</p> <p>At the end of November 2013 (Month 8), the projected in-year surplus is £3.1m. This is a reduction on the surplus position reported in October of £0.1m (rounded).</p> <p>The total service expenditure for the full year is projected to be £170.0m against the budget of £178.3m. The in-year surplus of £3.1m combined with the budgeted surplus of £5.2m results in a projected surplus of £8.3m. The projected year end surplus will increase General Fund balances to £25.8m at the year end.</p> <p>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 or receive contributions to/from the General Fund.</p> <p>The Capital Programme has been updated to reflect changes approved at Cabinet, including roll forwards and reprofiles. The capital budget at 30 November stands at £138.2m. 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 General Fund revenue budget at 30 November 2013, as detailed in paragraphs 2.4 to 2.9 and Appendix A of the report;
- (ii) Note the progress against the 2013/14 savings targets at 30 November 2013, as detailed in paragraph 2.10 and Appendix B of the report;
- (iii) Note the position for the HRA at 30 November 2013, as detailed in paragraph 2.11 and Appendix C of the report; and
- (iv) Note the projected outturn position for 2013/14 of the Council's capital budget at 30 November 2013, as detailed in paragraph 2.12 and Appendix D 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 balance, plus a planned surplus of £5.234m to be 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.

<b>Council Summary</b>	<b>Net Budget</b>	<b>Full year forecast at end November 2013</b>	<b>Over/(under) spend Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Directorate Expenditure</b>			
Adult and Community Services	57,235	57,235	-
Children's Services	66,387	66,437	50
Housing and Environment	25,419	25,419	-
Chief Executive	22,729	22,370	(359)
Central Expenses	1,329	(1,471)	(2,800)
	<b>173,099</b>	<b>169,990</b>	<b>(3,109)</b>
Budget Surplus (Agreed MTFS)	5,234	-	(5,234)
<b>Total Service Expenditure</b>	<b>178,333</b>	<b>169,990</b>	<b>(8,343)</b>

	<b>Balance at 1 April 2013</b>	<b>Forecast Balance at 31 March 2014</b>	<b>Budgeted Combined Balance at 31 March 2014*</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	17,456	25,799	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 £8.3m for the end of the financial year, made up as follows:

- £0.359m underspend in the Chief Executive department as a result of shared arrangements with Thurrock Council and vacancies within Legal and Democratic services;
- £2.8m surplus in Central Expenses arising from interest budgets and a one off grant windfall from the Department of Education (DfE); and
- £0.05m pressure within Children's Services, which is an aggregate position of the pressures and surpluses detailed in paragraph 2.5.
- £5.234m surplus as planned and agreed in the Medium Term Financial Strategy 2013/14.

The initial forecast of a £8.3m 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 £25.8m. If maintained, this position will provide added flexibility for the Council to address 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 October 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

<b>Directorate Summary</b>	2012/13 Outturn £000	2013/14 Budget £000	2013/14 Forecast £000
Net Expenditure	60,701	<b>57,235</b>	<b>57,235</b>
Projected over/(under)spend			-

The Adult and Community Services directorate is forecasting a balanced budget position for 2013/14. This reported position is masking a number of pressures within the service, particularly for Mental Health (£0.40m) and external care budgets for Older people (£0.47m). These pressures are being contained by management actions within the service and a draw down from funding set aside to offset anticipated service pressures. The net budget includes the full allocation of £3.27m social care funding transferred from NHS England. This is allocated by local Section 256 agreement taken to the Health and Wellbeing Board (H&WB) and payment is expected soon.

Proposals for use of re-ablement monies totalling £0.65m were agreed by the Health and Wellbeing Board on 17 September to improve re-ablement services and outcomes for residents. The directorate has also been successful in negotiating winter pressures funding; £0.476m has been agreed for Barking and Dagenham, which amongst other pressures provides funding for 7-day social care working.

A challenging savings target of £4.324m is built into the 2013/14 budget. These have largely all been delivered and any shortfalls are being covered within the relevant division.

The Adult and Community Services budget includes Public Health expenditure and income of £12.9m. The income is ring-fenced and contributes towards the Council's preventative agenda by promoting healthy outcomes for children and adults.

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 at 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.

Funding streams to be pooled in a single grant from April 2015 are the social care funding transfer, Clinical Commissioning Group (CCG) funding for Reablement, and capital grants for Disabled Facilities and Building Community Capacity.

## 2.5 Children's Services

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	69,448	<b>66,387</b>	<b>66,437</b>
Projected over/(under)spend			<b>50</b>

Children's Services 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.

During 2013/14, referral activity has increased consistently, suggesting more of a trend rather than a 'spike' in demand. This has required additional resourcing to ensure that risks are manageable. The number of assessments carried out has increased by 21% in the year to date, compared to the same period in 2012/13.

For 2014/15, current levels of social care need would lead to a budget pressure of £4.0m. This is likely to increase to around £6m as numbers of children in the borough increase. Despite the increase in numbers of Looked After Children subject to plans we remain below our statistical neighbour rates per 10,000 for Looked After Children. Our caseloads, whilst moving to acceptable levels remain well above the Munro recommendation and lead to recruitment challenges.

The position is being managed in 2013/14 through flexible use of government grants. For example, the change from 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 £2.70m of ongoing funding to invest in social care demand pressures. Grant flexibility of £0.60m is also available in 2013/14 to manage pressures.

The Targeted Support Division is forecasting an under spend in 2013/14 of £0.83m but this is largely as a result of the early achievement of approved savings for 2014/15 which means this forecast under spend is unlikely to continue into 2014/15.

Finally a drawdown of £2.71m is required from the CS Reserve to achieve a balanced budget position for 2013/14. This leaves the CS reserve fully earmarked and a small reporting variance of £0.05m overall for 2013/14.

## 2.6 Dedicated School Grant (DSG)

The DSG is a ring fenced grant to support the education of school-age pupils within the borough. The grant is allocated between the Schools and Centrally Retained budget in agreement with the Schools Forum. The 2013/14 DSG allocation is £218m which is inclusive of pupil premium and sixth form funding.

## 2.7 Housing and Environment

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	24,040	<b>25,419</b>	<b>25,419</b>
Projected over/(under)spend			-

Environmental Services is currently forecast to breakeven at year end but there are pressures of £0.680m mainly within Direct Services which includes Refuse Collection, Cleansing, and Grounds Maintenance. These pressures have arisen mainly as a result of pressure in achieving income targets, additional staff and increased vehicle costs. These pressures are being mitigated through vacant posts and prudent use of budgets across the division.

Within the Housing General Fund, the current number of Bed and Breakfast placements increased in November to 129 from 102 in October. There is potential pressure if this trend continues and the number of placements in December is pivotal to the services ability to continue managing this risk. These placements are a significant cost to the council due to the cap on benefits on this type of accommodation. The service has mitigated pressure through the use of alternative accommodation where possible, however, this action is limited and the impact of welfare reform provides further risk to this position.

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 £0.044m. This is mainly due to the pressures facing the Environmental Services budget but is being managed within the service.

## 2.8 Chief Executive's Department

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	19,059	<b>22,729</b>	<b>22,370</b>
Projected (under)spend			<b>(359)</b>

At the end of November, the Chief Executive department is forecast to underspend against its revised budget by £0.359m at year end. This is mainly due to in year vacancies across the divisions, tighter controls of expenditure, savings from treasury management contracts and additional training income from schools and Elevate.

## 2.9 Central Expenses

<b>Directorate Summary</b>	<b>2012/13 Outturn</b>	<b>2013/14 Budget</b>	<b>2013/14 Forecast</b>
	£000	£000	£000
Net Expenditure	1,021	<b>1,329</b>	<b>(1,471)</b>
Projected (under)spend			<b>(2,800)</b>
Budget Surplus (Assembly agreed MTFs)		<b>5,234</b>	-
Projected Surplus			<b>(5,234)</b>

There is a £1.4m surplus expected due to the management of our cash balances enabling a lower than budgeted interest cost to be charged to the General Fund in 2013/14.

The Council has also received a windfall from the Department for Education (DfE) of £1.4m. This relates to the Academy Top Slice applied to the Council's Revenue Support Grant in 2012/13. Due to changes in how Academies are funded, previously top sliced sums are being returned to Local Authorities nationally. This one off payment increases the overall surplus on Central Expenses to £2.8m.

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. Where there are shortfalls, these will be managed within existing budgets and do not affect the monitoring positions shown above.

A detailed breakdown of savings and explanations for variances is provided in Appendix B.

<b>Directorate Summary of Savings Targets</b>	<b>Target £000</b>	<b>Forecast £000</b>	<b>Shortfall £000</b>
Adult and Community Services	4,324	4,262	<b>62</b>
Children's Services	2,708	2,708	-
Housing and Environment	1,665	1,621	<b>44</b>
Chief Executive	2,733	2,583	<b>150</b>
Central Expenses	5,199	5,199	-
<b>Total</b>	<b>16,629</b>	<b>16,373</b>	<b>256</b>

## 2.11 Housing Revenue Account (HRA)

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

### Income

Income is expected to be on budget.

### Expenditure

Expenditure is forecast to be on budget, however, there is potential risk within repairs and maintenance and the delivery of planned savings. Current projections assume that expenditure pressures will be managed through underspends on other budgets. Pressure within the repairs and maintenance service relates to revised payroll forecasts, however, the level of work done on capital schemes is expected to increase, mitigating some of the pressure on the revenue budget.

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

### HRA Balance

Overall, the HRA is forecasting to breakeven. The HRA maintains a revenue reserve balance of £8.5m. Currently it is anticipated that this will be maintained at £8.5m by the end of 2013/14.

Within the HRA budget is a contribution to capital expenditure of £34.5m; however, this may be reviewed to accommodate expenditure pressures.

## 2.12 Capital Programme 2013/14

The Capital Programme forecast when compared to the current budget is as follows:

Directorate	Budget £000	Actual YTD £000	Forecast £000	Variance £000
Adult & Community Services	7,703	2,799	7,954	251
Children Services	34,740	18,875	34,054	(686)
Housing & Environment	4,816	2,536	4,816	0
Chief Executive	10,316	3,457	10,316	0
<b>General Fund</b>	<b>57,575</b>	<b>27,667</b>	<b>57,140</b>	<b>(435)</b>
HRA	80,587	35,360	80,466	(121)
<b>Total</b>	<b>138,162</b>	<b>63,027</b>	<b>137,606</b>	<b>(556)</b>

The detail for schemes is in Appendix D.



## **Summary**

The total approved capital programme currently stands at £138.2 million. Against this budget, Directorates are currently projecting to spend £137.6 million, giving an overall underspend of £0.56m.

The year-to-date capital expenditure total is £63.0 million meaning that £74.5 million is still expected to be spent in the remaining four months of the year. There is a risk as we lead into the winter months when works could be prevented due to weather constraints that parts of the programme will not be delivered to the extent currently predicted above. The Finance Service will continue to monitor this position closely in conjunction with service Project Managers and Sponsors, in order to identify any potential year-end underspends or slippage as early as possible.

## **Progress to Date on Approved Schemes**

### **Adult & Community Services (ACS)**

There is a projected overspend of £0.25m, due to the demand for HRA funded disabled adaptations. The majority of the spend within the budget is for level access showers. All people for whom major adaptations are provided have received an assessment by an Occupational Therapist. All cheaper equipment has already been considered and the alternative would be for a carer to assist with washing. The provision of a shower can therefore be a preventative measure that avoids greater ongoing expense on paid carers and residential care, as well as helping residents remain independent in their own homes. As demand remains high, further control measures are proposed for this area of expenditure, to ensure effective budget control for the future.

### **Children's Services (CHS)**

The Directorate has a revised budget for 2013/14 of £34.7 million, which is currently projected to underspend by £0.69m. The main reason for this variance is due to the Barking Abbey Artificial Football Pitch, which will now be delivered in 2014/15.

Total year-to-date spend is £18.8 million, which is broadly on target for the budget.

Cabinet has recently approved an additional £27 million to be spent on expanding Robert Clack school, which apart from £0.05m, is all profiled to be spent in 2014/15 and 2015/16.

### **Housing & Environment (H&E)**

#### **HRA Programme**

The HRA has a funded investment programme totalling £80.1 million following the October budget re-profiling exercise, £0.58m of which is managed by and shown within the ACS budget total. For the HRA managed schemes there is a forecast variance of £0.121m. Year to date spend is £35.4 million, therefore significant spend is expected within the last 4 months of the year. The primary reasons for variances are set out below:

Investment in own stock: Forecasting a variance of £0.12m which is mainly due to an underspend of £0.085m on Communal Lighting & Electrical Switchgear as the works have now finished and the remaining budget is no longer needed on this scheme, and will therefore be transferred back into the HRA available funding. The Oldmead & Bartlett Remedial Works scheme is currently projecting to underspend by £0.035m, which relates to a credit back from a previous year.

Street Purchase and Environmental Improvement: As noted within the ACS section, there is forecast overspend of £0.25m on Disabled Adaptations. As this scheme is HRA funded, this will potentially require additional HRA funds through the reallocation of budget from other existing HRA schemes. This was notified after the recent budget re-profile exercise, and hence further discussions will be held to agree how this will be funded.

## **Environmental Services**

Environmental Services has a funded investment programme totalling £4.8 million in 2013/14 with a nil variance expected. The programme has been revised to reflect the virement request to transfer the budgets for the Frizlands workshop major works scheme and brown wheeled bins scheme into the Environmental improvements and enhancements scheme to manage as a single scheme. It also includes an increase of £0.31m from Capital Reserves to the Highways Capital Programme requested to fund essential repair and reconstruction works to the Council's footways. The £0.31m has been approved subject to a robust business, outlining details of the scheme. Spend to date on schemes recently added to the programme has not yet been incurred, such as the recently approved CPZ's and Parkmap scheme, however, spend is expected to be to budget by the end of the financial year.

## **Chief Executive (CEO)**

The Directorate has a revised capital programme of £10.3 million. Following re-profile submissions to the December Cabinet the majority of schemes are forecast to spend to budget.

Members are aware the Council is implementing One Oracle, working in partnership with five other boroughs. Due to complications in finalising the design solution, and delays in Cap Gemini obtaining accreditation for the preferred hosting solution, this has resulted in a delay to the go live date. The Oracle project is forecasting an overspend of up to £0.260m, assuming a revised go live date of April 2014.

The Council is discussing the commercial position with Cap Gemini, negotiating a reduction in costs associated with the delay. In addition, the project sponsor has taken significant steps to reduce the projected pressure by carrying a thorough review of the project resources required. In order to mitigate the pressure, £0.05m will be transferred from HR budget to support the project. The rest of the pressure will be offset by using the interest budget previously set aside to repay external borrowing.

## **2.13 Financial Control**

At the end of November, 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 have 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:** Oracle monitoring reports

#### **List of Appendices**

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