

## CABINET

4 August 2014

<b>Title:</b> Budget Monitoring 2014/15 - April to June 2014 (Month 3)	
<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>Summary</b> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the three months to the end of June 2014, 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 £27.1m.</p> <p>At the end of June 2014 (Month 3), there is a projected overspend of £2.5m, predominantly on the Children's services budget.</p> <p>The total service expenditure for the full year is projected to be £167.8m against the budget of £165.3m. The projected year end overspend will reduce the General Fund balance to £24.6m at the year end.</p> <p>The Housing Revenue Account (HRA) is projected to break-even, leaving the HRA reserve at £8.7m. 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 on 30 June 2014, including roll forwards and re-profiles. The capital budget at 30 June stands at £153.9m. 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 2014/15 of the Council's General Fund revenue budget at 30 June 2014, as detailed in paragraphs 2.4 to 2.9 and Appendix A of the report;</li><li>(ii) Note the progress against the 2014/15 savings targets at 30 June 2014, as detailed in section 3 and Appendix B of the report;</li></ul>	

- (iii) Note the position for the HRA at 30 June 2014, as detailed in section 4 and Appendix C of the report;
- (iv) Note the projected outturn position for 2014/15 of the Council's capital budget as at 30 June 2014, as detailed in section 5 and Appendix D of the report; and
- (v) Approve the inclusion in the 2014/15 Capital Programme of the previously agreed £1m for the Asset Strategy programme, as detailed in paragraph 5.3 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 2014/15 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 2014 provided for a target of £15.0m for the General Fund balance. The revenue outturn for 2013/14 led to a General Fund balance of £27.1m. The current projected position would mean a reduction in the General Fund balance to £24.6m, but still above the target general fund balance of £15.0m.
- 1.4 The additional level of reserves above the minimum level provides the Council with some flexibility in its future financial planning but, to take advantage of that, it is essential that services are delivered within the approved budget for the year. Overspends within directorate budgets will erode the available reserves and therefore limit the options that reserves could present in the medium term.

## **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 2014/15</b>	<b>Net Budget  £000</b>	<b>Full year forecast at end June 2014 £000</b>	<b>Over/(under) spend Forecast £000</b>
<b>Directorate Expenditure</b>			
Adult and Community Services	55,575	55,575	-
Children's Services	61,792	64,772	<b>2,980</b>
Housing and Environment	23,860	23,860	-
Chief Executive	20,280	19,846	<b>(434)</b>
Central Expenses	3,813	3,813	-
<b>Total Service Expenditure</b>	<b>165,320</b>	<b>167,866</b>	<b>2,546</b>

	<b>Balance at 1 April 2014 £000</b>	<b>Forecast Balance at 31 March 2015 £000</b>
General Fund	27,138	24,092
Housing Revenue Account	8,736	8,736

2.2 The current Directorate revenue projections indicate an overspend of £2.5m for the end of the financial year, made up as follows:

- £0.4 underspend in the Chief Executive directorate mainly as a result of vacancies within the directorate and
- £2.9m overspend in Children's Services due to demand pressures in the Complex Needs and Social Care division.

Whilst the forecast overspend would result in a reduction in the Council's General Fund balance, it would still remain 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 2014 was £27.1m and the current forecast balance for the end of the financial year is £24.6m.

At the end of June 2014, the HRA is forecasting a balanced budget, maintaining the HRA reserve at £8.7m.

### 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>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	55,191	<b>55,575</b>	<b>55,575</b>
Projected over/(under)spend			-

The Adult and Community Services directorate is forecasting a balanced budget position for 2014/15. This reported position is after a number of pressures within the service, particularly for Mental Health and non-residential care budgets for all client groups. These pressures are being evaluated and appropriate management actions within the service will be implemented where necessary as well as drawing down on funding set aside to offset anticipated service pressures. The net budget includes the full allocation of £4.185m social care funding transfer from NHS England; this is allocated by local Section 256 agreement and is part of the Council's Better Care Fund (BCF) as taken to the Health and Wellbeing Board (H&WBB) in March 2014.

A savings target of £2.438m is built into the 2014/15 budget. These are largely all in process of being delivered or necessary changes have already been made, any shortfalls are being covered within the relevant division.

The Adult and Community Services budget includes Public Health, responsibilities for which transferred over to the Council in April 2013. The service is wholly grant funded, and the grant for 2014/15 is £14.213m. The grant contributes towards the Council's preventative agenda by promoting healthy outcomes for adults and children. At the end of the last financial year there was an underspend of £785k, which as a ring-fenced grant, has been carried-forward into the current financial year.

The future social care funding regime is becoming increasingly challenging 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 H&WBB. This comes at the same time as the planned implementation of the Care Act for which significant costs are anticipated for local authorities.

## 2.5 Children's Services

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	65,016	<b>61,792</b>	<b>64,772</b>
Projected over/(under)spend			<b>2,980</b>

Children's Services delivered a balanced budget for 2013/14 but it was reported that this financial position was masking significant demand pressures within the Complex Needs and Social Care division. Overall the Service is forecasting in 2014/15 an over spend of £4.480m less Children's Service reserve of £1.5m equalling £2.980m overspend. The other divisions within Children's Services are currently endeavouring to mitigate the reported overspend using existing resources.

The position was managed in 2013/14 through flexible use of government grants. For example, the change from Local Authority Central Spend Equivalent Grant (LACSEG) to Education Support Grant (ESG), the changes to the funding of statutory services to two year olds from General Fund to the Dedicated Schools Grant released £2.7m of ongoing funding to invest in social care demand pressures and savings from other service areas within the directorate enabled a balanced budget for 2013/14. The additional funding of £2.7m has now been included within the Children's Service base budget for 2014/15 in support of the social care demand pressures along with a further pressure of £3m built in to the Council's MTFs for 2015/16. It is difficult to establish the true underlying pressure on the budget until permanent staff are in place, due to the high cost of agency personnel.

The current reporting for 2014/15 indicates that current levels of social care need' due to the demographic growth within social care has impacted on caseloads within the Assessment and Care Management teams and recruitment challenges has led to a reporting budget deficit of c£1.2m. Recruitment alternatives are currently being explored. An increase in Legal costs due to the complexities of cases and large sibling groups is forecasting a pressure c£800k, and a review of the legal costs is currently being undertaken. Legislative changes in the 'No Recourse to Public Funds' (NRPF) has placed an additional budget pressure of c£2m of support to these children and families. The processes around this cohort are currently under review and challenge.

The Placements team is forecasting an overspend of c£600k that comprises of small overspends within the adoption and fostering service, however the small overspends within these two areas has saved significant costs to the other higher cost placements, and SEN Transport is forecasting an overspend of c£300k due to high demand for pupil transport assistance. In total a budget pressure of c£4.9m within the Complex Needs and Social Care division due to demand pressures from children in the borough. 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.

## 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 2014/15 DSG allocation is £228.0m, covering Individual Schools Budgets, High Needs and Early Years services.

## 2.7 Housing and Environment

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	25,586	<b>23,860</b>	<b>23,860</b>
Projected over/(under)spend			-

The projection to year end is to break even. Potential pressures have been identified within these budgets, however, it is expected that they will be managed within the service.

Environmental Services is forecast to breakeven at year end, however, there are risks of pressures in the region of £1.2m that will need to be managed by the department in order to deliver a breakeven position.

The potential risk is a combination of pressure on staffing budgets, income pressure, increased ELWA disposal costs and increasing fuel and utility costs. The single largest risk is the street lighting electricity budget with risk of £629k due to increasing energy costs. A significant element of risk is outside the services direct control, however, an action plan is being developed to support mitigation including reviewing income opportunities, holding vacant posts, ensuring recharges and income collection is up to date and maintaining spend restraint across the service. Alongside this, the service is reviewing budgets with a view to realigning and bringing allocation in line with requirement.

The Housing General Fund is currently forecast to breakeven at the year end. The main risk to this position is the level of temporary accommodation placements and in particular, the numbers within Bed and Breakfast. There were 84 Bed and Breakfast placements at the end of June 2014 which is an increase from the end of May 2014 position of 73 placements, if this continues at the current rate this will create a budget pressure 2014/15.

The impact of welfare reform continues to be monitored. Temporary accommodation arrears have increased by 8% this financial year, however, the current level of bad debt provision provides sufficient coverage. The position will be closely monitored throughout the year.

## 2.8 Chief Executive's Directorate

<b>Directorate Summary</b>	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	18,475	<b>20,280</b>	<b>19,846</b>
Projected (under)spend			<b>(434)</b>

The Chief Executive (CE) department at this stage is reflecting a projected year end underspend position against its revised budget of (£434k). The underspend position is mainly attributed to in year vacancies within Democratic Services and Strategy and Communications making some transitional arrangements to identify 2015/16 savings. There are also other savings achieved from the termination of two treasury management contracts which the Council no longer requires and an underspend expected against the 2014/15 audit fees. All of these will be brought forward as savings options for 2015/16.

The department had been set a savings target in 2014/15 of £1.2m, which have been achieved.

## 2.9 Central Expenses

<b>Directorate Summary</b>	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	4,382	<b>3,813</b>	<b>3,813</b>
Projected (under)spend			-

Central Expenses continues to project a break-even position for its budget at the end of June.

## 3 In Year Savings Targets – General Fund

- 3.1 The delivery of the 2014/15 budget is dependent on meeting a savings target of £8.7m. 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.
- 3.2 A detailed breakdown of savings and explanations for variances is provided in Appendix B.

<b>Directorate Summary of Savings Targets</b>	Target £000	Forecast £000	Shortfall £000
Adult and Community Services	2,438	2,398	<b>40</b>
Children's Services	2,964	2,964	-
Housing and Environment	1,129	659	<b>470</b>
Chief Executive	1,219	1,219	-
Central Expenses	971	971	-
<b>Total</b>	<b>8,721</b>	<b>8,211</b>	<b>510</b>

## 4 Housing Revenue Account (HRA)

- 4.1 The HRA is currently forecast to breakeven.
- 4.2 **Income**  
Income is expected to be on budget and the main risk to this position is the impact of welfare reform. Some provision has been made within the budget through increased bad debt provision plus the availability of discretionary housing payments, and the position is being monitored closely. In addition to this, stock movements are being monitored as an increasing level of right to buy activity could impact on income levels.
- 4.3 **Expenditure**  
Expenditure is expected to be on budget. The main risk to this position is the delivery of in year savings of £6.1m primarily within supervision and management, repairs and maintenance and recharged services. Delayed or reduced delivery will need to be managed within the HRA to ensure a breakeven position.

#### 4.4 HRA Balance

It is expected that HRA balances will remain at £8.7m. There is a budgeted contribution to capital resources of £35.5m.

### 5. Capital Programme 2014-15

5.1 At its meeting on 30 June 2014 Cabinet agreed a revised capital budget of £153.9m. The Capital Programme forecast against budget as at the end of June 2014 is as follows:

	2014/15 Revised Budget £'000	Actual Spend to Date £'000	2014/15 Forecast £'000	Variance against Budget £'000
Adult & Community Services (ACS)	10,056	1,908	10,347	291
Children's Services (CHS)	30,098	5,028	30,098	0
Housing & Environment (H&E)	5,104	27	5,104	0
Chief Executive (CEO)	7,901	373	7,752	(149)
<b>General Fund subtotal</b>	<b>53,159</b>	<b>7,336</b>	<b>53,301</b>	<b>142</b>
Housing Revenue Account (HRA)	100,808	8,568	98,808	(2,000)
<b>Total</b>	<b>153,967</b>	<b>15,904</b>	<b>152,109</b>	<b>(1,858)</b>

5.2 The detail for individual schemes is in Appendix D.

5.3 At its meeting on 14 February 2012, Cabinet agreed a programme of £1m per year for the three years 2012/13 - 2014/15 in respect of the Asset Strategy programme. The £1m for the current year was not included in the 2014/15 Capital Programme approved by the Assembly in February 2014 as specific projects had not been agreed. Since that time, schemes have been designed in accordance with the Corporate Accommodation Strategy and are now ready for implementation in 2014/15. Cabinet is therefore asked to agree that this year's Capital Programme increase by £1m, bringing the total to £154.9m.

5.4 For the existing budget, Directorates are currently predicting a net underspend of £1.9m. Details are given below.

#### 5.5 Adult & Community Services

Adult & Community Services has a 2014/15 budget of £10.0m, which includes £7.8m for the Barking Leisure Centre. There is an overspend of £291k, which is in respect of the Barking Park project, for costs that have been delayed from the previous year. There are no predicted variances on any of the other current schemes.



## 5.6 **Children's Services**

Children's Services has a 2014/15 budget of £30.0m. The majority of this budget is to fund various school expansion projects. There are currently no projected over or underspends across the Directorate.

## 5.7 **Housing and Environment**

Environmental Services has a 2014/15 capital budget of £5.1m which will fund various schemes such as the Street Lighting replacement, Highways Improvement programme and Parking schemes. At this stage, there are currently no pressures and officers are working to ensure all external funding is drawn down from funding bodies and that projects run to schedule.

## 5.8 **Chief Executive's**

The Directorate has a revised 2014/15 budget of £7.9m, and is currently reflecting an overall variance of (£149k). This position is made up of slippage of (£275k) within Regeneration, and an overspend within Asset Strategy of £126k.

Within Regeneration, slippage of £275k is forecast against the Bath House project. There has been a delay in the commencement of works due to a proposed partnership with an external organisation to deliver the project. It is expected that the majority of the costs will now be incurred in 2015/16.

Asset Strategy schemes are reflecting a £126k overspend, which is due to the Energy Efficiency programme. This overspend will be funded from the Salix reserve account which pays for the energy saving initiatives. A budget re-profile request will be submitted to Cabinet to ensure an adequate budget is reflected in the capital programme.

ICT Modernisation & Improvement schemes are expected to run according to schedule.

## 5.9 **Housing Revenue Account (HRA)**

The HRA has a revised capital programme for 2014/15 investment programme totalling £100.8m and is currently forecasting an outturn of £98.8m.

### Estate Renewal

The estate renewal budget is currently expected to spend to budget

### New Build

The new build programme is currently showing a £2m variance due to slippage on Ilchester Road (£1m) and North Street (£1m). This follows consultation with residents and the subsequent need to revise scheme deliverables.

### Investment in own stock

These schemes are currently expected to spend to budget

## 6. **Financial Control**

- 6.1 At the end of June, the majority of key reconciliations have been prepared and reviewed. Where they are outstanding, an action plan has been put in place to ensure that they are completed by the end of the financial year.

## **7. Options Appraisal**

7.1 The report provides a summary of the projected financial position at the relevant year end and as such no other option is applicable for appraisal or review.

## **8. Consultation**

8.1 The relevant elements of the report have been circulated to appropriate Divisional Directors for review and comment.

8.2 Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

## **9. Financial Implications**

9.1 This report details the financial position of the Council.

## **10. Legal Issues**

10.1 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.

### **Public 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