

CABINET

16 February 2015

Title: Budget Monitoring 2014/15 - April to December 2014 (Month 9)	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: No
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Summary <p>This report provides Cabinet with an update of the Council's revenue and capital position for the nine months to the end of December 2014, projected to the year end.</p> <p>At the end of December 2014 (Month 9), there is a projected overspend of £1.6m, predominantly on the Children's Services budget after the agreed application of the remainder of the Children's Services reserve. This is an increase of £0.1m from last month.</p> <p>The total service expenditure for the full year is currently projected to be £166.9m against the budget of £165.3m. The projected year end overspend coupled with the budgeted reserve drawdown will reduce the General Fund balance to £24.5m at the year end. 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 budget stands at £143.2m with a forecast outturn of £134.6m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the projected outturn position for 2014/15 of the Council's General Fund revenue budget at 31 December 2014, as detailed in paragraphs 2.1, 2.4 to 2.10 and Appendix A of the report;(ii) Note the progress against the agreed 2014/15 savings at 31 December 2014, as detailed in paragraph 2.11 and Appendix B of the report;(iii) Note progress against the agreed 2014/15 HRA savings as detailed in paragraph 2.12 and Appendix B of the report;	

- (iv) Note the overall position for the HRA at 31 December 2014, as detailed in paragraph 2.12 and Appendix C of the report; and
- (v) Note the projected outturn position for 2014/15 of the Council's capital budget as at 31 December 2014, as detailed in paragraph 2.13 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 report 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, unless addressed, would mean a reduction in the General Fund balance to £24.5m, 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.

Council Summary 2014/15	Net Budget	Full year forecast at end December 2014	Over/(under) spend Forecast
	£000	£000	£000
Directorate Expenditure			
Adult and Community Services	55,159	54,452	(707)
Children's Services	61,503	65,372	3,869
Housing (GF)	3,563	3,512	(51)
Environment	20,861	21,300	439
Chief Executive	21,276	20,902	(374)
Central Expenses	4,002	2,452	(1,550)
Total Service Expenditure	166,364	167,836	1,626
Budgeted reserve drawdown (to Central Expenses budget)	(1,044)	(1,044)	-
Total Expenditure	165,320	166,946	1,626

	Balance at 1 April 2014	Forecast Balance at 31 March 2015
	£000	£000
General Fund	27,138	24,468*
Housing Revenue Account	8,736	8,736

*The forecast general fund balance includes the £1.6m projected overspend plus the £1m planned drawdown from reserves.

2.2 Chief Finance Officer's comments

The current Directorate revenue projections indicate an overspend of £1.6m for the end of the financial year, made up as follows:

- £0.4m underspend in the Chief Executive directorate mainly as a result of vacancies within the directorate;
- £0.7m underspend in the Adult & Community Services directorate as a result of widening the use of the Public Health grant;
- £1.5m underspend in the Central Expenses budget due to VAT refunds and reduced borrowing costs as a result of well managed cash flow;
- £0.4m overspend in Environment due to accommodation costs and reduced parking income; and
- £3.8m overspend in Children's Services due to demand pressures in the Complex Needs and Social Care division.

As noted above, the current forecast overspend within Children's Services represents the greatest area of risk to delivering a balanced budget for 2014/15. Previous Cabinets have received reports from Children's Services setting out options for reducing expenditure in the current financial year. Alongside the actions

by Children's Services, September Cabinet agreed that Chief Officers and budget managers only authorise expenditure on areas that are essential to the delivery of their service. The effects of these measures have fed through more broadly in to the overall position since September with the overall position having improved by nearly £2m.

As previously reported, there are further options for this financial year including the transfer of the net income for the commercial portfolio currently accounted for in the Housing Revenue Account and a potential reduction in the required bad debt provision for temporary accommodation based on current demand. An analysis of the monitoring and outturn reports in previous years also highlighted a consistent trend of reductions in projected spend and this will need to be reviewed up to and through the end of the financial year.

Whilst the currently 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 £24.5m.

At the end of December 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

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	55,191	55,159	54,452
Projected over/(under)spend			(707)

The Adult and Community Services directorate is overall forecasting an underspend of £707k for 2014/15, similar to last month. This position is after the decision to charge Substance Misuse and Drug and Alcohol Action Team services as well as Sports Development to Public Health grant. There are still a number of pressures within the service, particularly for Mental Health and non-residential care budgets for all client groups. These pressures have been evaluated and appropriate management actions within the service will be implemented as necessary. 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 our Better Care Fund (BCF) as taken to the Health and Wellbeing Board (H&WBB) in March

2014. Submission templates for the social care funding transfer have recently been released by NHS England and have been completed.

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, i.e. a net budget 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. As noted above, a recent review has been undertaken in order to free up usage of the grant so that other appropriate general fund services can be charged to the grant to help alleviate the overall corporate budget pressure.

2.5 Children's Services

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	65,016	61,503	65,372
Projected over/(under)spend			3,869

Overall the service is forecasting a projected overspend of £3,869m. This projection takes into account the use of the children's reserve of £1.500m and actions undertaken totalling £1.120m. This represents an increase of £154k from last month.

Pressures across Children's Services continue to grow so that less will be available to ameliorate the social care overspend, and grant income has also reduced. Cabinet has been updated in October and a further update in January setting out options for significantly reducing or eliminating the adverse budget position and quantifiable growth data, analysis and trends. The increase this month in the forecast relates to two key aspects:

- a) Staffing directly as a result of increased caseload and the continued aim to keep to the agreed position of 20 cases per social worker. As at the 23rd January 2015 the caseload is at 977 with 35 permanent or agency social workers and 15 trainees covering these cases. Trainees are only statutorily allowed limited caseloads in their first year which increases the number of staff currently required. Despite this current additional cost there will be long term benefits as these staff will help reduce agency costs in the longer term.
- b) Additional costs have been incurred as previously reported to Cabinet for short term support including ISOS, Impower and additional social care and finance consultancy.

Social Care have been successful in reducing some areas of cost including independent fostering where numbers have reduced from over 110 in April 2014 to currently 85 resulting in ongoing reduced costs of £100k per month. Legal costs are

also forecasted to reduced by £250k in comparison to last year and 33 children have been adopted which reduces looked after children spending.

There are further risks that may affect the outturn. The troubled families programme extends over several years. Phase one is due to end in May 2015 with phase two set to commence shortly. Grant funding is received from central government for the programme and should be rolled forward where necessary to meet the targets of the programme. Failure to roll forward this funding into future years would place the scheme and its targets at risk though this must be viewed in the context of the Council's overall financial outturn before any decision is made.

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 Environment

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	22,425	20,861	21,300
Projected over/(under)spend			439

Environmental Services is forecast to overspend by £439k at the year end. The position is consistent with that reported in November with the service managing pressures of £2m.

The risk within Environmental Services is a combination of pressure on staffing budgets, income pressures, increased ELWA disposal costs and the under achievement of savings targets. A significant element of risk is outside the services direct control, however, an action plan is being delivered to support mitigation of the budget pressure. Action includes reviewing income opportunities, utilising one off grants, holding posts vacant, ensuring recharges and income collection are up to date and maintaining expenditure restraint across the service.

The service has an agreed savings target of £904k, of which £434k is expected to be delivered. Under achievement of this target is due to delays in determining the future use of 2 and 90 Stour Road (£295k) and the loss of income generating assets affecting the Parking service alongside improved payment behaviour (£175k). A larger percentage of PCN's are being paid on time at the discounted rate suggesting greater compliance. The service is unable to contain this pressure and outturn within budget. Further pressure on this position is increasingly difficult to absorb and manage.

2.8 Housing General Fund

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	2,530	3,563	3,512
Projected over/(under)spend			(51)

Current projections indicate an underspend position of £51k for 2014/15. Reduced spend on Bed and Breakfast is expected to more than offset other budget pressures within the service. The main risk to the position is the level of temporary accommodation placements, particularly the numbers within Bed and Breakfast, and the level of arrears.

There were 61 Bed and Breakfast placements as at the end of December 2014 which is below the November 2014 position of 80. Placements over the first 9 months of the year have typically been within budget assumptions. A continuation of this trend over the remainder of the year should enable the service to outturn under budget; however, there is constant fluctuation in the numbers placed in Bed & Breakfast. In order to mitigate this pressure, the service actively works to minimise Bed and Breakfast placements by using decanted stock and incentivising private sector landlords.

The status of arrears has moved over the first 9 months of the year with a greater proportion now categorised as former tenants – this follows an increase in the number of evictions. Former tenant arrears require a larger bad debt provision due to the reduced likelihood of collection. Targeted intervention and additional collection resource is being deployed to further improve arrears management and as a result overall arrears have reduced by £22k since November 2014. However, they are £450k above the position at the start of the year. The benefit from reduced Bed and Breakfast placements is currently offsetting the need for greater bad debt provision. Bed and Breakfast placements and movements in arrears continue to be closely monitored as does the impact of welfare reform.

2.9 Chief Executive's Directorate

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	18,475	21,276	20,902
Projected over/(under)spend			(374)

The Chief Executive's directorate is still on target to underspend against its budget by £374k. This is a net figure resulting from a number of variances against service budgets. Underspends are forecast due to a number of reasons, including in year vacancies across the divisions, savings from treasury management contracts and tighter controls on expenditure against supplies budgets as a result of the expenditure freeze.

There are potential overspends resulting from income targets not being met as a result of the under-recovery of some school buybacks, a reduction in citizenship ceremony income and the under-recovery of the court cost income target. Also,

forecasts provided by Elevate indicate a potential deficit of £0.5m at the end of the year due to pressure within the Revenues and Benefits service, primarily in respect of print and postage activity. Discussions between Elevate and the Council are ongoing to determine a way forward, however, the contract terms provide that any year-end deficit would be funded on an 80:20 basis between Agilisys and the Council.

The directorate had been set a savings target in 2014/15 of £1.2m, which have been achieved. As 2015/16 and 2016/17 savings targets have been agreed, divisions within this directorate are making the necessary arrangements to enable the delivery of these savings.

2.10 Central Expenses

Directorate Summary	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	4,382	2,958	1,408
Projected over(under)spend			(1,550)

Consistent with the previous month, Central Expenses is projecting an underspend of £1.6m resulting from a refund of overpaid VAT (£400k), reduction in borrowing costs and improved rate of return on cash deposits (£650k) and a forecast increase in the agency staff contract rebate (£500k). The agency staff contract rebate increases as more agency staff are employed with the increased usage of such staff by Children's Services having contributed significantly to the higher rebate and should be viewed as offsetting some of the pressure in that area. As highlighted above, the number of agency staff in Children's Services has not reduced as targeted which may bring a further increase in the rebate projection.

Further savings may be available from the bad debt provision for Council Tax and temporary accommodation arrears if current collection rates are maintained. Whilst Council Tax collection levels are holding, as noted above, there may be pressure on temporary accommodation budgets due to the increase in former tenant arrears. A view on both will be taken once the year end collection and outstanding debt levels are known.

2.11 In Year Savings Targets – General Fund

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.

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	2,438	2,398	40
Children's Services	2,964	2,964	-
Housing and Environment	1,129	659	470
Chief Executive	1,219	1,219	-
Central Expenses	971	971	-
Total	8,721	8,211	510

2.12 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven. More detailed monitoring information is given in Appendix C.

Income

Income is expected to overachieve by £419k. Pressure of £196k on garage rents, due to a higher than expected void level, is more than offset by additional income from water charges to tenants and an expected overachievement on interest received on HRA cash balances.

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. The position is being monitored closely.

HRA stock movements are being closely monitored as an increasing level of Right to Buy activity and higher than budgeted void levels may adversely impact rental income.

Expenditure

Expenditure budgets are expected to overspend by £419k. Expenditure pressures within the caretaking service, repairs and maintenance service and the delayed delivery of savings provide the main risks. However, this is expected to be mitigated through other budgets underspending and the one off receipt of recovered water and sewerage overpayments on demolished blocks.

Current forecasts indicate delivery of £4.6m of the £6.1m saving requirement with a shortfall of £1.5m. This is primarily due to delays in commencing restructures, the ongoing review of energy billing within communal areas and non-receipt of income from Reside Ltd for the provision of housing landlord services and repairs and maintenance services due to higher than expected void levels.

Delayed or reduced delivery is expected to be managed within the HRA to ensure a breakeven position.

HRA Balance

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

2.13 Capital Programme 2014/15

The Capital Programme forecast against budget as at the end of December 2014 is as follows:

	2014/15 Current Budget £'000	Actual Spend to Date £'000	2014/15 Forecast £'000	Variance against Budget £'000
ACS	10,451	8,421	10,451	0
CHS	27,632	18,297	27,454	(178)
H&E	5,492	2,922	5,041	(451)
CEO	9,139	4,350	8,567	(572)
Subtotal - GF	52,714	33,990	51,513	(1,201)
HRA	90,439	51,855	83,077	(7,362)
Total	143,153	85,845	134,590	(8,563)

The detailed scheme breakdown is shown in Appendix D.

Summary

The 2014/15 capital programme stands at a revised budget of £143.1m, and Directorates are anticipating an overall underspend of £8.5m. This forecast assumes that almost £50m will still be spent in the remaining months of the year; therefore an accelerated level of expenditure will need to be incurred in order to meet this position and avoid further slippage.

New Capital Schemes

There are no new schemes this month.

Adult & Community Services (ACS)

Adult & Community Services has a current budget for 2014/15 of £10.4m, and the programme is forecast to spend to budget overall.

Children's Services (CHS)

Children's Services has a current budget of £27.6m, and is currently expecting to underspend against this by £178k. This is a net position and results from a number of individual over and underspends. Scheme (under) / overspends of £100k or more include:

- Roding Primary School (£130k)
- Richard Alibon Expansion £100k
- Manor Infants & Junior Expansion £200k
- John Perry School Expansion £100k
- All Saints Expansion £116k
- Jo Richardson Expansion (£250k)

Under and overspends are returned to and drawn from the total Basic Need funding allocation. Officers will continue to ensure that all schools are completed for the required new intake deadlines.

Housing & Environment (H&E)

Environmental Services has a current capital programme of £5.4m, and is currently projecting slippage of £451k as a result of the following schemes:

- Street light replacement (£272k) – due to negotiations with the contractor;
- Road safety improvement (£100k) – due to delays in conducting a borough wide assessment of sites to assess suitability for the scheme; and
- Controlled Parking Zones (£79k) – due to delays in implementing Traffic Management Orders (TMOs).

Chief Executive (CEO)

The Directorate has a current budget of £9.1m and is forecasting overall slippage of £571k.

Asset Management schemes are forecasting total slippage of £458k. This includes £155k relating to the Energy Efficiency Programme, which is as a result of the closure of various corporate accommodation sites. Approval will be sought from the government body providing the funding to allow slippage into 2015/16. There is also slippage of £200k and £133k forecast against Backlog Capital Improvements and the Corporate Accommodation schemes respectively. These also arise as a result of the timing of decisions surrounding the future of corporate buildings.

Regeneration schemes are forecast to slip by £133k this year, owing to tendering delays for the fit-out of Ice House Court in Abbey Road. The unspent budget will be used as part of a match-funding bid with the GLA to secure further regeneration grant funds in 2015/16.

Housing Revenue Account (HRA)

The HRA has a current capital programme budget of £90.4m, and is forecasting a year-end outturn of £83.1m.

Estate Renewal

This budget is forecasting slippage of £200k due to uncertainties around the timings of the full demolition of Gascoigne and Althorne way buildings.

New Build

This budget is showing a variance of £1.942m, which results from an overspend of £152k on the New Council Housing Phase 3 scheme, and slippage of £2.095m across the following schemes:

- Ilchester Road (£400k); and
- North Street (£200k) – due to the conclusion of the consultations;
- Marks Gates (£400k) – due to contractor delays,
- Leys (£750k) – due to ground investigations;
- Wood Lane (£130k); and
- Abbey Road (£215k) – retention payments now expected in 2015/16.

Investment in stock

This budget is forecasting an overall underspend of £5.219m; this is a net position and also includes some individual scheme overspends:

- Decent Homes – North, Blocks, and Sheltered – combined slippage of £6.4m – due to contractor negotiations and delays in the tender process
- Fire safety works – slippage of £300k;
- Aids & Adaptations, Voids, Asbestos Removal, Central heating Installations and Decent Homes South – combined spend brought forward from 2015/16 of £1.5m

2.14 Financial Control

At the end of December, 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.

3 Options Appraisal

- 3.1 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.

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