

CABINET

19 July 2016

Title: Budget Monitoring 2016/17 - April to May 2016 (Month 2)	
Report of the Cabinet Member for Finance, Growth & Investment	
Open Report	For Decision
Wards Affected: All	Key Decision: No
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Accountable Strategic Director: Jonathan Bunt, Strategic Director of Finance and Investment	
Summary <p>This report provides Cabinet with an update of the Council's revenue and capital position for the two months to the end of May 2016, projected to the year end.</p> <p>At the end of May 2016, there is a projected overspend of £4.8m, the main elements being in Children's Social Care (£3.3m), Leisure (£0.3m) and Homelessness (1.0m). There are pressures in a number of other service areas but all are currently forecast to be managed.</p> <p>The total service expenditure for the full year is currently projected to be £155.1m against the budget of £150.3m. Together with funding for Ambition 2020 and savings implementation, the projected year end overspend will reduce the General Fund balance to £16.0m at year end, which is above the recommended minimum level of £15.0m set by the Strategic Director of Finance and Investment. 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 £197.2m and is currently forecast to spend to budget.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the projected outturn position for 2016/17 of the Council's General Fund revenue budget at 31 May 2016, as detailed in paragraphs 2.1, 2.4 to 2.13 and Appendix A of the report;(ii) Note the progress against the agreed 2016/17 savings at 31 May 2016, as detailed in paragraph 2.14 and Appendix B of the report;(iii) Note the overall position for the HRA at 31 May 2016, as detailed in paragraph 2.15	

of the report;

- (iv) Note the projected outturn position for 2016/17 of the Council's capital budget as at 31 May 2016, as detailed in paragraph 2.16 and Appendix 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 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 (GF) 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 2016/17 budget, setting out risks to anticipated savings and action plans to mitigate these risks. The format of the report reflects the new interim management structure of the Council and contains detailed tables of the service divisions that make up the new directorates.
- 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 Strategic Director of Finance & Investment has recommended a minimum level of £15.0m for the General Fund balance and the revenue outturn for 2015/16 led to a General Fund balance of £21.1m. The table below shows the available reserves at the authority's disposal to cover the cost of implementing savings proposals and the Ambition 2020 programme:

Projected Level of Reserves	£'000	£'000
Current GF balance		21,115
Other available reserves		4,538
Total available reserves		25,653
<u>Calls on reserves:</u>		
Implementation of savings proposals	(2,832)	
Ambition 2020	(2,000)	
		<u>(4,832)</u>
Revised Level of Reserves		20,821

- 1.4 Any costs of the Ambition 2020 programme in excess of the £2m shown above will be met from capital receipts. Whilst these receipts can only normally be used to fund capital expenditure, the government is allowing their use for transformational projects during the period 2016 to 2019.

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 2016/17	Net Budget £000	Full year forecast at end May 2016 £000	Over/(under) spend Forecast £000
Directorate Expenditure			
Service Development & Integration	107,051	110,646	3,595
Customer, Commercial & Service Delivery	30,575	30,761	186
Growth & Homes	5,800	6,800	1,000
Law & Governance	436	436	-
Finance & Investment	1,583	1,583	-
Central Expenses	4,869	4,869	-
Total Service Expenditure	150,314	155,095	4,781

	Balance at 1 April 2016 £000	Forecast Balance at 31 March 2017 £000
General Fund	21,115	16,040*
Housing Revenue Account	8,736	8,736

* The forecast general fund balance includes the reserve drawdowns to fund Ambition 2020 and savings proposals, plus the projected budget overspend shown above.

2.2 Comments of the Strategic Director of Finance & Investment

The projected overspend of £4.781m shown in the table above represents a significant risk to the authority's financial position and if it cannot be managed would reduce the GF balance to £16.040m, which is still above the target balance of £15.0m. It should however be noted that there is currently a funding gap of £2.3m for the 2017/18 budget, which, elsewhere on the agenda of this meeting, is recommended to be met from balances and will result in a further reduction of the GF balance to £13.740m, which is below the target balance. The Strategic Director of Finance & Investment has a responsibility under statute to ensure that the Council maintains appropriate balances at all times

The main elements of the projected overspend are as follows:

- Children's Complex Needs & Social Care - £3.3m
- Leisure - £0.3m
- Environmental Services - £0.2m
- Homelessness - £1.0m

The current forecast overspend within Children's Social Care represents the greatest area of risk to delivering a balanced budget for 2016/17. Last year, Cabinet received reports from Children's Services setting out options for reducing expenditure. These were partially successful and the overall overspend in Children's Social Care reduced to £4.8m by year end. The SAFE programme within Children's Social Care is ongoing with a focus on reducing the level of expenditure. The ability of that plan to deliver savings, which will be monitored at a detailed level, will strongly influence any decisions on a spend freeze or other measures to reduce the in year overspend.

The historic trend for all services is for the final outturn position to be better than that projected throughout the year though this predominantly occurs as a result of active management decisions and close monitoring of the pressure areas. It is essential that this occurs again in 2016/17 and the delivery of services within the approved budget is given equal status as other projects and programmes within the Council.

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 Service Development & Integration

Division	Full year Budget 2016/17	Period 2 Projection	Variance
	£000	£000	£000
Adults Care & Support			
Delivery	31,032	31,032	0
Commissioning	7,155	7,155	0
Mental Health	3,558	3,558	0
Adults Support Services	1,460	1,460	0
Sub-total Adults Care & Support	43,205	43,205	0
Children's Care & Support			
Delivery	38,826	42,121	3,295
Commissioning	8,647	8,647	0
Sub-total Children's Care & Support	47,473	50,768	3,295
Education	4,175	4,175	0
Public Health (Net)	0	0	0
Community Safety & Offender Management	1,501	1,501	0
Leisure	884	1,184	300
Divisional Support - Children's	9,813	9,813	0
Directorate Total	107,051	110,646	3,595

The Service Development and Integration Directorate is, at this early stage in the financial year, forecast to overspend by £3.595m by year end. The most significant area of overspend is Children's Care and Support which is forecasting an

overspend of £3.295m against a budget of £38.826m. This position assumes the currently identified target SAFE programme savings will be achieved by year end though the expectation for the programme is to continue to identify options to achieve a balanced budget for the service.

There is also a potential pressure on income in Leisure of £0.300m. The services are reviewing all areas of spend and income to mitigate this position as the year goes on. There are pressures within Adult Social Care which the service is working to mitigate or manage through a call on departmental reserves at year end.

A challenging savings target of £3.866m has been built into the 2016/17 budget. These savings are largely in the process of being delivered or already implemented. However, current forecasts indicate under delivery of £0.088m (see appendix B for further details). Where under delivery has been identified, the Department is actively working to manage the resulting pressure.

2.5 Adult Care and Support

The service delivery arm of Adult Social Care and support is currently reflecting an overall budget pressure of £2.356m primarily due to a £2.384m estimated cost pressure of purchasing adult social care across all client groups. The service received additional funding in the 2016/17 budget of circa £0.948m from the ring – fenced 2% Adult Social Care precept but cost pressures still remain. These include a provision for a number of high cost transition cases from Children’s Services, demographic growth and pressures arising from fee increases as a result of the impact of the national minimum wage and encouraging market stabilisation requirements under the Care Act 2014. There is a small net underspend arising from in year vacancies in the service block of £0.028m.

These budgets will continue to be monitored closely throughout the year as activity levels fluctuate. At this stage it is assumed that this pressure would be managed in year through mitigation, part of which is the major review of care packages and placement costs in learning disabilities but a call on the departmental reserves may also be required.

Mental Health is forecasting a pressure of £0.157m due to the number of residential placements. The service is currently managed in partnership with the North East London NHS Foundation Trust (NELFT) under a Section 75 agreement and NELFT colleagues continue to work towards managing the admission and discharge process. It should be noted that an increase in net placements over the remainder of the year would increase the pressure on this budget.

2.6 Children’s Care and Support

Significant demand pressures within the Complex Needs and Social Care and Support (CNSC) division have continued from 2015/16 into the current financial year. At the start of the financial year the service faced a potential pressure of £9.465m on its budget. To mitigate this pressure, savings proposals totalling £5.911m were identified by the service and agreed by the Corporate Performance Group. It should be noted that even with the full achievement of these proposals there is still currently a £3.555m funding gap to resolve. The table below shows the projected outturn position:

Children's Care and Support – Forecast Outturn

	2016-17 Budget	2016-17 Outturn Forecast	Projected Variance
Care and Support			
Staffing	14,939	14,939	0
Placements	22,970	22,485	(485)
Transport	1,928	1,928	0
Legal	437	437	0
NRPF	1,008	1,008	0
UASC	1,098	1,323	225
Funding Gap	(3,555)	0	3,555
Total Care and Support	38,826	42,121	3,295

At this stage it is anticipated that the SAFE programme will fully deliver the target savings of £5.911m and exceed the original target on placements. The number of unaccompanied asylum seeking children (UASC) the Council supports has increased however which has resulted in an additional pressure of £0.225m on the budget.

2.7 Progress on Reductions

Good progress has already been made towards achieving the targeted reductions particularly in placements where costs have been reduced significantly from the anticipated levels at the start of the year.

The Service has made particular progress in containing the cost of LAC placements. Whilst the reduction in costs is welcome it should be noted that this is a volatile budget and could be subject to future increased statutory demand requirements.

There has also been progress on reducing staffing costs by the freezing of a number of posts and careful vacancy management. The main saving on staffing however will be the reduction of agency costs through the recruitment of permanent social workers and as yet limited progress has been made in that area.

The service has reduced the cost originally predicted for the project team and recruitment by using more permanent staff to support the programme and bringing the social worker recruitment process back in house.

2.8 Dedicated School Grant (DSG)

The DSG is a ring fenced grant to support the education of school-age pupils within the borough. The 2016/17 DSG allocation is £235.6m, covering Individual Schools budgets, High Needs and Early Years services.

2.9 Customer Commercial & Service Delivery

Division	Full year Budget 2016/17	Period 2 Projection	Variance from Budget
	£'000	£'000	£'000
Environmental Services	17,810	17,996	186
Elevate Client Unit	12,645	12,645	0
Management costs	120	120	0
Total General Fund	30,575	30,761	186

The projection to year end for this area is an overspend of £0.186m. There are potential pressures within other budgets, however, it is expected that they will be managed within the service.

Environmental Services is forecasting a pressure predominantly a result of savings that are not being delivered (£0.186m) which is made up as follows:

Service Area	£'000
Green garden waste	110
School crossing patrols	76
Total	186

The collection of green garden waste was scheduled to end in September 2015 and deliver a £0.22m saving in 2016/17. This service is now expected to continue to September 2016 which has resulted in a £0.11m pressure in the current year budget. Sponsorship of school crossing patrols has been sought but has not been as successful as anticipated, resulting in the pressure shown above.

There is currently a pressure on staffing budgets of £0.938m. This is a result of staff over establishment in Direct Services (Clean & Green). The service is currently formulating a plan to mitigate this pressure and staffing costs are expected to be within budget by year end.

The Elevate Client Unit is also currently forecast to break even at the year end. There is a risk to this position from potential Service Provider Change Notices due to Elevate's scale and scope pressures within their Revenue & Benefits service. These will not be quantified until after the first quarter of this financial year. In 2015/16 there was a pressure on the budget due to court summonses being cancelled. There is a further risk of approximately £0.5m that this will occur again, however mitigation is in place to improve controls around the cancellations of summonses.

Operational HR is forecast to break even at year end, however, there is risk that not enough schools will choose to buy the service. This will need to be managed by the department in order to come in on budget.

2.10 Growth & Homes

Division	Full year Budget 2016/17	Period 2 Projection	Variance
	£'000	£'000	£'000
Culture & Recreation	4,230	4,230	0
Regeneration	809	809	0
Housing strategy	(99)	(99)	0
Homelessness	774	1,774	1,000
Growth & Homes	86	86	0
Total General Fund	5,800	6,800	1,000

The projection to year end is an overspend of £1.0m within Homelessness. The majority of this budget is driven by the number of people presenting, and being accepted, as statutorily homeless. Potential pressures have been identified within the other budgets, however, it is expected that they will be managed within the service areas.

Culture & Recreation is forecast to breakeven at year end, however, there is a pressure of £47k due to the extension of the Volunteer programme until September 2016 but this is being offset by underspends in the libraries and will be managed by the department in order to deliver a breakeven position.

Homelessness is currently forecasting a pressure of £1.0m at the year end. This is due to the net cost of placing people in accommodation provided by private sector landlords, which is currently the largest source of temporary accommodation. The pressure is a result of nightly rates above the recoverable amount being paid to landlord agents in the form of incentives in order to secure properties, which would otherwise be lost to other boroughs. Performance bonuses are also paid to agents for providing seven or more properties. Although the total cost of using private sector landlord properties is forecast at approximately £1.000m, if these properties are not secured, the cost to the Council would be even greater as a result of increased use of B&B accommodation.

There were 30 Bed and Breakfast placements at the end of May 2016 which is a reduction of 21 from the April position. The projected average number of placements in B&B for the year stands at 24 which is close to the budgeted number of 21. This position however could be affected by the potential impact of Boundary Road hostel renovation works on the numbers. There is a risk that full closure maybe required and the Council will subsequently need to find alternative accommodation for the 27 households currently occupying these units. The impact of welfare reform continues to be monitored. Temporary accommodation arrears have increased by £170k (5%) this financial year, and, the current level of bad debt provision will not provide sufficient coverage, resulting in a risk to the budgeted position of £0.29m. The position will be closely monitored throughout the year. Former Tenant Arrears are being outsourced to Agilysis via Elevate for collection and it is anticipated that some arrears will be recovered, reducing the pressure on the provision required.

There continues to be a high level of security in place at the homeless hostels to enable the safeguarding of staff and residents following a number of incidents in previous years. There is currently a potential overspend of £0.27m, however the current security provision is being continuously reviewed to mitigate this risk in 2016/17.

A significant element of risk is outside the services direct control, however, an action plan is being developed to support mitigation. Mitigating action includes reviewing income opportunities, holding vacant posts, reviewing how services are being delivered in order to find more efficient ways of providing ,ensuring recharges and income collection is up to date and maintaining spend restraint across the service.

Regeneration (Including Housing strategy)

The Regeneration and Economic Development teams are currently projected to spend to budget by the end of the financial year with no specific issues or pressures at this relatively early stage in the financial year.

The main risk to achieving the break even position is the in respect of recovering the budgeted level of income which is derived mainly from Planning Application and Local Land Charge fees. To date, however, income levels are in line with those of previous years and, therefore, there are no current concerns.

2.11 Law & Governance

Directorate Summary	2016/17 Budget £000	2016/17 Forecast £000
Net Expenditure	436	436
Projected over(under)spend		0

This directorate is projected to spend to budget.

2.12 Finance & Investment

Directorate Summary	2016/17 Budget £000	2016/17 Forecast £000
Net Expenditure	1,583	1,583
Projected over(under)spend		0

This directorate is projected to spend to budget.

2.13 Central Expenses

Directorate Summary	2016/17 Budget £000	2016/17 Forecast £000
Net Expenditure	4,869	4,869
Projected over(under)spend		0

This budget covers treasury management costs (interest paid on loans and received on investments), budgets to cover the costs of redundancy and doubtful debts and a small contingency to cover any unforeseen pressures.

Currently expenditure and income is forecast to be on budget though the additional investment interest budget is challenging to achieve in a very low interest environment without a significant increase in the risk taken on placing cash deposits.

2.14 In Year Savings Targets – General Fund

The delivery of the 2016/17 budget is dependent on meeting a savings target of £12.9m. 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
Customer, Commercial & Service Delivery	2,790	2,604	186
Growth & Homes	971	371	600
Service Development & Integration	3,866	3,778	88
Finance & Investment	5,227	5,137	90
Total	12,854	11,890	964

2.15 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven as shown in the table below:

	£'000	£'000	£'000
Rents	(90,538)	(90,818)	(280)
Non Dwellings Income	(807)	(750)	57
Other Income	(19,285)	(19,403)	(118)
Interest Received	(336)	(336)	0
	(110,966)	(111,307)	(341)
Repairs & Maintenance	17,093	17,844	751
Supervision & Maintenance	42,572	42,078	(494)
Rent Rates and Other	700	700	0
Bad Debt Provision	2,772	2,772	0
Interest Charges	10,059	10,059	0
Corporate & Democratic Core	685	685	0
	73,881	74,138	257
Revenue Contribution to Capital	37,085	37,169	84

Income

Income is expected to be over-achieve by £0.341m.

The main areas of variation from budget are:

- Additional rental income £0.280m from lower than expected void levels, partially offset by lower rental income from HRA decants used for Temporary Accommodation
- Lower than expected garage income £0.057m due to a lower than expected level refurbished garages which carry a higher rental charge.
- Lower than expected service charge income of £0.100m due to the Housing Management decision to suspend Concierge charges at Thaxted House. This is offset by an equivalent savings in payments to the security contractor.
- Higher commission levels (£0.218m) resulting from higher payments to the water supplier.

Expenditure

Expenditure budgets are expected to be overspent by £0.257m .

- The main areas of forecast overspend are in the Repairs and Maintenance Service, which is currently forecast to overspend by £0.751m. Whilst this is a pressure, this is a significant reduction from 2015/16 based on expected reduction in staffing costs in 2016/17 from the on-going voluntary redundancy process and service management efficiencies.
- Supervision and Management is expected to underspend by £0.137m due to Housing Management staff saving (£0.394m) from the on-going voluntary redundancy process and service management savings from the suspension of the concierge service at Thaxted House (£0.100m).

HRA Balance

It is expected that HRA balances will remain at £8.7m. There is a budgeted contribution to capital resources of £35.5m which will increase by £0.084m based on the net underspend reported above.

There is a risk to the above position from a court decision against LB of Southwark, which is subject to appeal currently, in respect of resale of Water supply and the associated commission (to cover admin costs of circa £1.2m in 2016/17). Should the appeal fail this may result in the repayment of commission to tenants. The service is currently seeking legal advice on this matter.

2.16 Capital Programme 2016/17

The Capital Programme forecast against budget as at the end of May 2016 is as follows:

	2016/17 Revised Budget £'000	Actual Spend to Date £'000	2016/17 Forecast £'000	Variance against Budget £'000
Service Development & Integration	56,503	12,638	56,503	0
Customer, Commercial & Service Delivery	7,811	133	7,811	0
Finance & Investment	4,297	595	4,297	0
Growth & Homes	54,669	5,891	54,669	0
Subtotal - GF	123,280	19,257	123,280	0
HRA	74,000	3,781	74,000	0
Total	197,280	23,038	197,280	0

The detailed scheme breakdown is shown in Appendix C.

The programme is shown in the new directorate format. All schemes are currently forecasting to spend to budget. The main elements of the programme are as follows:

Service Development & Integration - The main element in the programme is the school expansion programme (£46.8m).

Customer, Commercial & Service Delivery - This includes IT projects (£3.7m) and various environmental projects (£4.1m).

Finance & Investment - The main element in the programme is the corporate accommodation strategy (£4.1m).

Growth & Homes - The largest project is the Gascoigne estate renewal (£37m).

HRA - The main expenditure is on new build schemes (£25.6m) and investment in existing stock (£38.6m).

2.17 Financial Control

At the end of May, 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 report has been circulated to the Corporate Performance Group for review and comment. 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.

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** – Capital Programme