

## CABINET

21 March 2017

<b>Title:</b> Budget Monitoring 2016/17 - April to January (Month 10)	
<b>Report of the Cabinet Member for Finance, Growth and Investment</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Director:</b> Kathy Freeman, Finance Director	
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b>	
<p>This report provides an update on the Council's revenue and capital position for the ten months to the end of January 2017, projected to the year end.</p> <p>There is a projected overspend of £4.992m on the 2016/17 budget. This is a worse position than was reported to Cabinet last month. Pressures that have been present for many years within Enforcement and Clean and Green will not be resolved within year and so they are now being reported as forecasted overspends. These services are managing pressures on staffing budgets, income pressures and increased fleet costs across the division. Decisions to defer agreed savings are also having an impact. The delivery of mitigating action is supporting this position with a residual gap of £0.996m in Clean and Green and £0.299m in Enforcement.</p> <p>There is also a pressure of £0.338m on Council Tax recovery managed as part of the Elevate Contract.</p> <p>The £1.4m base budget pressure within Adults Care and Support will be managed by a planned drawdown from the earmarked reserve.</p> <p>The total service expenditure for the full year is currently projected to be £155.3m against the budget of £150.3m. The projected year end overspend will contribute to a reduction in the General Fund balance to £19.261m at year end, which is well above the minimum target balance set by the Chief Financial Officer in consultation with the Cabinet Member for Finance, Growth and Investment. However, given the level of risk in both this year and future years it remains important that the actions taken to address the service pressures should continue and, wherever possible, other mitigations are brought forward to safeguard the Council's future financial stability.</p> <p>The Housing Revenue Account (HRA) is projected to produce a revenue surplus of £1.9m. This will be used to fund improvements in the service and support the implementation of savings, with the balance going to the reserve, taking it to £9.3m. There remain, however, a number of potential calls on this reserve. The HRA is a ring-</p>	

fenced account and cannot make or receive contributions to/from the General Fund.

The Capital Programme budget stands at £197.7m with an overall variance of £2.376m, made up of over-performance of £4.9m on the General Fund programme and slippage of £2.5m on the HRA programme.

### **Recommendation(s)**

The Cabinet is recommended to:

- (i) Note the projected outturn position for 2016/17 of the Council's General Fund revenue budget at 31 January 2017, as detailed in section 4 and Appendix A to the report;
- (ii) Note the overall position for the Housing Revenue Account at 31 January 2017 as detailed in section 5 of the report;
- (iii) Note the progress made on budgeted savings to date, as detailed in section 6 and Appendix B to the report;
- (iv) Note the projected outturn position for 2016/17 of the Council's capital budget as at 31 January 2017, as detailed in section 7 and Appendix C;
- (v) Approve the flat rate sliding scale (discretionary) legal fees to be charged in connection with the preparation and sealing of contracts awarded where the value of a contract exceeds £100,000, as set out in section 8 and Appendices D and E to the report; and
- (vi) Approve the hourly rate of £175 (plus VAT) to cover the Council's legal fees (operating through BDT Legal) in connection with planning and highways matters, namely agreements and undertakings under Section 106 of the Town and Country Planning Act 1990 (as amended) and highways agreements under Sections 38 and 278 of the Highways Act 1980, as set out in section 8 and Appendices D and E to 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.

## **1 Introduction and Background**

- 1.1 This report provides a summary of the Council's General Fund, HRA and Capital positions.

## **2 Revenue General Fund Summary**

- 2.1 The following tables summarise the spend position and the forecast position of the General Fund balances.

**Table 1:** Council General Fund Revenue Spend Position

<b>Service Area</b>	<b>Revised Budget</b>	<b>Forecast Outturn</b>	<b>Forecast Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Chief Exec, Strategy and Programmes	233	233	-
Law and Governance	463	233	(230)
Adults Care and Support	42,892	42,892	-
Children's Care and Support	48,573	50,654	2,081
Children's Central Items	9,202	9,202	-
Education Youth and Childcare	4,418	4,284	(134)
Public Health and Community Safety	1,226	1,212	(14)
Healthy Lifestyles and Leisure	838	1,685	847
Clean and Green	7,479	8,476	997
Enforcement	11,086	11,384	298
Elevate Client Unit	13,432	13,770	338
Chief Operating Officer	244	244	-
Finance and Assurance	4,092	4,092	-
Growth and Homes and Regeneration	749	749	-
Assets and Investment	(2,374)	(2,874)	(500)
Culture and Recreation	4,248	4,208	(40)
Housing and Homelessness	827	3,727	2,900
Corporate and Central Costs	2,687	1,137	(1,550)
<b>TOTAL REVENUE GF</b>	<b>150,314</b>	<b>155,307</b>	<b>4,993</b>

**Table 2:** The consequent forecast position on reserves.

<b>Projected Level of Reserves</b>	<b>£'000</b>
Opening General Fund Balance	21,115
Draw down from available reserves	4,538
<b>Total available reserves</b>	<b>25,653</b>
<b>Calls on reserves:</b>	
Implementation of savings proposals	-1,400
<b>Revised Level of Reserves</b>	<b>24,253</b>
Reserves Drawdown to cover Overspending	<b>-4,992</b>
<b>Forecast General Fund Reserve at 31 March 2017</b>	<b>19,261</b>

2.2 Following those movements to and from the reserve and the impact of the in year overspend the General Fund reserve is now forecast to be £19.261m at year end.

### 3 CFO Commentary on the Revenue Position

- 3.1 The projected overspend of £4.992m shown in the table above is a deterioration from the position reported to Cabinet last month. However, this is largely the crystallisation of risks that have been noted in previous budget reports regarding the high level of pressures being managed within Clean and Green and Enforcement. These services have been working to bring forward mitigations but given there are only two months remaining it is now unlikely that the issues can be resolved within this financial year – however action is still ongoing to ensure that the issues are addressed in the longer term and reduce the likelihood of recurrence. The usual pattern is for forecasts to fall in the final quarter so there is still some scope for an improved position at year end but a prudent forecast has been made now.
- 3.2 If expenditure cannot be managed down further, then this level of overspend would reduce the GF balance to £19.261m. Taking £2.3m from reserves to balance the 17/18 budget as planned in the MTFs would bring the balance to £16.961m which is above our target minimum level of balances of £15m but still leaves a reduced margin for unforeseen events. Overall this means the position, although positive, remains finely balanced and measures to manage these risks will need to be brought forward during the course of 2017/18 as part of the budget setting and budget monitoring processes.
- 3.3 The main elements of the projected overspend are shown below, offset by underspends in Central Expenses (£1.55m), Law and Governance (£0.23m) and Asset Strategy (£0.5m):
- Homelessness - £2.9m
  - Children's Care and Support - £2.08m
  - Clean and Green - £0.996m
  - Leisure - £0.85m
  - Council Tax Recovery/Elevate Client Unit- £0.34m
  - Enforcement - £0.3m
- 3.4 Further details of the factors leading to these overspends and other key areas of risk are outlined in the paragraphs below.
- 3.5 In February, the Chief Operating Officer brought to Cabinet an update on the 2017/18 budget and the Medium Term Financial Strategy to 2020/21. This set out the Council's approach for the next four years which is to break with the tradition of previous budget rounds of service cuts and salami slicing and use investment in our borough and in changing how our Council operates to address budget issues. The achievement of the targets in that strategy depends in part on robust financial management and the whole or partial successful mitigation of the pressures being experienced by services this year.

### 4. Major GF Variances and Risks – Overspends

#### Housing General Fund

- 4.1 The **Housing General Fund** is currently forecasting an **overspend of £2.9m** at the year end. The overspend is largely due to the net cost of placing people in accommodation provided by private sector landlords, which is the largest source of

temporary accommodation. The income that the Council can collect from tenants is constrained by the level of Housing Benefit payable which has been frozen for several years and is now below the cost of most accommodation in the borough and neighbouring areas.

- 4.2 In addition there continues to be need for security at the homeless hostels to enable the safeguarding of staff and residents following several incidents in previous years. This is creating a pressure of around £0.25m on the hostels budget. This is included within the £2.9m overspend.
- 4.3 The November 2016 Cabinet meeting received a report on the Homelessness situation and approved the high-level strategy and an outline recovery plan. This was followed by presentation of a more detailed plan at PAASC on 5 December. Although the budget is unlikely to return to a balanced position within year, full delivery of the plan should reduce the overspend further.

### **Children's Care and Support**

- 4.4 There is a forecast **overspend of £2.081m in Children's Care and Support**. This is made up of a forecast overspend of £2.686m in the Operations division offset by underspends in Commissioning and in Traded Services.
- 4.5 The overspend in Operations arises from demographic/demand pressures and difficulties in recruiting permanent social workers which in turn requires the service to employ agency workers at much higher cost. These issues are longstanding and also shared with other London Boroughs. However, the SAFE programme and a strong service management response has succeeded in counteracting these pressures and the outturn forecast has been steadily reducing all year.
- 4.6 This month's forecast is a reduction of £0.256m over last month's equivalent figures before. This is within the placements budgets and is the result of the continued work in reviewing and placing children and young people in suitable lower cost placements. Any further reductions delivered as part of the SAFE programme or other service changes will reduce the forecast further.

### **Clean and Green**

- 4.7 There is a forecast **overspend of £0.997m within Clean and Green**. This is partly the result of member decisions to delay the ending of the Green Garden Waste Service. The collection of green garden waste was due to end in September 2015 which would deliver a £0.22m saving in a full year. This service continued to the end of September 2016 at a cost of £0.125m in 2016/17. A consultation on future options for the service has been carried out and a business plan for a charged service is being worked up. The saving will therefore be achieved in full in 2017/18.
- 4.8 The balance of the overspend (£0.872m) relates to pre-existing service pressures. The Clean and Green service has been managing significant staffing pressures brought forward from previous years including from previous savings not delivered in full. At the beginning of the year it was identified that the total staffing cost was exceeding the budgeted establishment and managers have been working to reduce this through restructuring and staff turnover. The remaining pressure is now estimated to be £0.911m with further risks of around £0.3m. Funding has been

provided in the MTFs to address some of the budget shortfall and the service under the new interim management is currently formulating a plan to ensure that it can remain within budget in the next financial year.

- 4.9 There are also other pressures amounting to £0.215m including a forecast overspend on transport and fleet and income pressures in Cemeteries and Park Sports. Further analysis is ongoing with the service to better understand the patterns and formulate plans to improve income. £0.255m of mitigating actions have been identified including £96k from a combination of lower supply costs and overachieving income within Fleet Management. The net impact is therefore £0.997m across the total budget for the service.

### **Healthy Lifestyles and Leisure**

- 4.10 The **Leisure service** is still forecasting a **projected overspend of £0.847m**. The main element is a pressure against Abbey Leisure Centre (ALC) of £0.603m which is because of potential income shortfall based on trends of £0.380m while £0.223m relates to a combination of pressures against staffing budgets and supplies & services cost pressure based on current trends.
- 4.11 As previously highlighted, the original business case in 2011/12 for the new ALC was based on the premise that the centre would be self-financing. However, this relied on an ambitious estimate of the possible income. Since the business case was drawn up the market in Barking has changed with other rival establishments being set up in the area and the Abbey centre started with a lower number of customers than in the original projections. Since its opening the centre has grown its income but a gap still remains in achieving the original ambitious targets. In addition, the costs of setting up such a centre had been underestimated.

### **Elevate/Revenues and Benefits**

- 4.12 There is an **overspend of £0.338m** by year end which is mainly with respect to **Council Tax Court Costs income underachievement**. This forms part of the Elevate Contract. This first occurred in 2015/16 due to court summonses being cancelled as an incentive for Council Tax payers to repay their debts. This practice has continued into 2016/17, although cancellations are reducing and thus the underachievement also is reducing.

### **Enforcement**

- 4.13 There is a forecast **overspend of £0.298m within Enforcement**. £0.076m of this results from member decisions to delay the implementation of the School Crossing patrol. As requested by members the service have used the time to examine other options such as external funding and sponsorship. However no external sources have been found and so the service will cease in March 2017. The in year overspend resulting from this delay is £0.076m.
- 4.14 In addition the implementation of the parking review has not led to the expected savings of £0.45m. Planned changes to the service to deliver guarantee of the ongoing delivery of this saving have been delayed resulting in little impact in year. Attempts to make one-off reductions to mitigate in the current year have also not been successful.

- 4.15 There is also an additional income pressure of £490k on the Parking account (excluding the £0.45m saving). Effectively this year has seen a large reduction in the income from Penalty Charge Notices (PCNs) to £0.67m below the budgeted level. This is however partially offset by increased income from Residents and other permits and Pay and Display Income resulting in the net pressure of £490k. Finance and Service managers are working on further analysis to understand these income trends. Improved compliance by motorists will result in reduced numbers of PCNs being issued. However there have also been a number of operational issues in the service which are now being addressed. Service managers have put in place a range of improvement actions which will be monitored but the full impact will only be small in the remaining two months of the year.
- 4.16 However the service also anticipates that with ongoing Street lighting capital works in current year, there will be reduced pressure on the repairs and maintenance budget. There are also underspends across a range of other non-parking budgets that will offset the parking pressures. This works out to an overall forecast variance of £0.298m.

### **Offsetting Forecast Underspends**

- 4.17 There is a forecast underspend of £1.55m within Corporate and Central Costs. Interest on borrowing costs is currently forecast to be £0.2m better than budget due to required borrowing being lower than anticipated and additional procurement savings of £0.2m are also forecast. In addition, there is around £1.1m projected underspend relating to Procurement savings. This is an increased figure based on the latest quarterly returns.
- 4.18 Asset Strategy is projecting an underspend of £0.5m resulting from a surplus on B&D Reside.
- 4.19 The Law and Governance Service is generating an income surplus, which is shown as an underspend of £0.23m.

### **Other Issues and Risks**

- 4.20 Adults Care and Support has an underlying pressure of £1.361m against the purchase of adult social care placements and packages. There are also overspends within LD Supported Living contracts and Mental Health. Together the pressures potentially amount to £1.47m. This pressure will be met by a call on the Adults reserve and so there will be no impact on the Council's General Fund reserves.

## **5. In Year Savings Targets – General Fund**

- 5.1 The delivery of the 2016/17 budget is dependent on meeting a savings target of £12.9m. Service 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 are either reflected in the monitoring positions above or will be managed within existing budgets.

- 5.2 A detailed breakdown of savings and explanations for variances is provided in Appendix B and any shortfall in savings is already incorporated in to the overall and service forecasts earlier in the report.

**Table 3: Savings Targets**

<b>Summary of Savings Targets</b>	<b>Target £000</b>	<b>Forecast £000</b>	<b>Shortfall £000</b>
<b>Total</b>	<b>12,854</b>	<b>10,773</b>	<b>2,081</b>

## 6. Housing Revenue Account (HRA)

- 6.1 The Housing Revenue Account is currently projecting an additional in year surplus of £1.92m as shown in the table below.

**Table 4: HRA Summary**

HRA Classification	Budget £'000	Forecast £'000	Variance £'000
Rent	(90,538)	(90,818)	(280)
Non-Dwelling Rents	(807)	(750)	57
Other Income	(19,285)	(19,453)	(168)
Interest Received	(336)	(437)	(101)
<b>Income</b>	<b>(110,966)</b>	<b>(111,458)</b>	<b>(492)</b>
Repairs and Maintenance	17,093	16,843	(250)
Supervision and Management	42,572	41,382	(1,190)
Rent, Rates and Other Taxes	700	350	(350)
Bad Debt Provision	2,772	2,772	0
Interest Charges	10,059	10,059	0
Corporate and Democratic Core	685	685	0
<b>Expenditure</b>	<b>73,881</b>	<b>72,091</b>	<b>(1,790)</b>
<b>Revenue Contribution to Capital</b>	<b>37,085</b>	<b>37,447</b>	<b>362</b>
<b>Transfer to HRA Balances</b>	<b>0</b>	<b>1,920</b>	<b>1,920</b>

Overall there has been no change on the HRA forecast since last month.

### HRA Income

- 6.2 Income is expected to over-achieve by £0.492m. The main areas of variation from budget are:

- Additional rental income of £0.28m from lower than expected void levels, partially offset by lower rental income from HRA decants used for Temporary Accommodation
- Lower than expected service charge income of £0.1m due to the Housing



Management decision to suspend Concierge charges at Thaxted House. This is offset by an equivalent savings on the payment to the security contractor.

- Higher than budgeted income from telecommunication masts and other income is expected (£0.268m)
- Based on a higher level of balances now expected to be held in the HRA an increased interest payment is expected (£0.101m)

### **HRA Expenditure**

6.3 In the same way as the rest of the Council the Housing Service has a large-scale transformation programme to reduce costs and improve services for tenants and residents. This included a voluntary redundancy programme funded from HRA budgets. The Improvement programme has contributed to the creation of a large overall underspend on expenditure.

- Supervision and Management is expected to underspend by £1.190m, this is due to Housing Management fleet/estate cost reductions (£0.5m) & staff saving (£0.590m) from the on-going voluntary redundancy process and service management savings from the suspension of the concierge service at Thaxted House (£0.1m).
- The Repairs and Maintenance Service is currently forecast to underspend by £0.250m. This is a significant reduction from 2015/16 due to reduction in staffing costs in 2016/17 because of the voluntary redundancy scheme. The service also continues to actively work to identify further savings and make better use of its existing resources. The forecast position is highly dependent on level of work carried out by the in-house repairs service (in preference to that completed by sub-contractors), this continues to be closely monitored to ensure no revenue pressures are created and the existing workforce are underutilised. Any management decision to move additional work to sub-contractors will also need to consider the revenue and capital budget implications of this action
- The HRA contribution towards the cost of voluntary redundancy and the additional HRA pension fund top up is currently forecast to be £3.5m but this is containable within the overall HRA budget due to the staff vacancies created from the voluntary redundancy process.

### **HRA Balances**

6.4 There is a budgeted contribution to capital resources of £37.1m and it is currently assumed this will increase by £0.362m in 2016/17. Based on the current forecast the HRA will generate an additional surplus of £1.9m. £1.356m will fund the HRA contribution to the Transformation fund with the remaining £0.546m surplus being added to the HRA reserve.

6.5 This remaining surplus will partly contribute towards a potential risk 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.

## 7. Capital Programme 2016/17

- 7.1 The Capital Programme forecast is expenditure of £4.9m above profile on the General Fund programme –this is the result of works being completed ahead of schedule rather than cost over-runs. There is £2.376m slippage on the HRA programme. A summary of the programme is shown in the table below and further information about major variances is given below.

**Table 5:** Capital Programme

	<b>2016/17 Revised Budget</b>	<b>Actual Spend to Date</b>	<b>2016/17 Forecast</b>	<b>Variance against Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Adults Care and Support	2,003	1,131	2,003	0
Healthy Lifestyles	311	210	311	0
Education Youth and Childcare	59,719	56,419	64,296	4,577
Clean and Green	344	32	118	(226)
Enforcement	3,570	1,630	2,919	(651)
ICT	5,132	3,287	5,472	340
Assets and Investment	3,029	23,488	3,029	0
Growth & Homes & Regeneration	16,811	10,542	16,861	50
Culture and Recreation	3,541	171	3,541	0
Housing General Fund	40,935	25,510	41,760	825
<b>Subtotal - GF</b>	<b>135,393</b>	<b>122,420</b>	<b>140,308</b>	<b>4,915</b>
HRA	62,259	32,930	59,720	-2,539
<b>Total</b>	<b>197,652</b>	<b>155,350</b>	<b>200,028</b>	<b>2,376</b>

- 7.2 **Education Youth and Childcare** - The main element in the programme is the school expansion programme (£59m). Forecast is that it will spend £4.5m over budget – however this is due to schemes being developed ahead of schedule including £3.5m for Barking Riverside. Funding for this is already in place and budgeted in 2017-18.
- 7.3 **Enforcement** - There is an underspend of £0.476m on Street Lighting and £0.175m on other Highways capital projects.
- 7.4 **Clean and Green** - There is an underspend of £0.226m on the BMX track project.
- 7.5 **ICT** - This includes IT projects (£5.1m) and various environmental projects (£3.9m). The Directorate is showing an overspend of £0.958m primarily due to increased hardware costs for the ICT End User scheme and the IT investment scheme being brought forward from future years. However, this is offset by other underspends in IT (£0.618m) including £0.147m on the Channel Shift Project.

7.6 **Housing General Fund** - The largest project is the Gascoigne estate renewal (£37m). The monitoring shows that the service will overspend by £0.8 due to delay in agreement on procurement and brief specification on Boundary Road Hostel (£0.375m) and accelerated spend of £1.2m on Gascoigne West due to buybacks.

7.7 **HRA** - The main expenditure is on new build schemes (£17.3m) and investment in existing stock (£36.9m). Forecast is £2.5m below budget due to delay in Modular programme development and agreement and new build schemes.

## **8. New Fees and Charges for Legal Services**

8.1 The Council's shared legal service, operating as BDT Legal, conduct planning and highways work arising from planning applications for new developments. The growth and regeneration agenda of the Council, particularly due to the move towards delivery of development schemes, through the Council's wholly owned regeneration vehicle Be First, will result in an intensification of the quantum and complexity of development schemes and associated legal work. In the past, fixed fees have been charged in connection with such work. In order to accommodate the growth plans of the Council, additional legal resources will be required. It is therefore proposed to impose hourly rates of £175 in connection with:

- a) Planning agreements and undertakings under Section 106 of the Town and Country Planning Act 1990 (as amended), and
- b) Section 278/38 highways agreements under the Highways Act 1980.

8.2 In respect of contracts and procurement work, it is proposed to introduce discretionary fees for preparation and sealing of contracts for works and services based on a sliding scale relative to the value of the contract. Lower value contracts under £100k will not incur any fees in order to ensure small scale contracts for which small and medium sized enterprises might bid are not caught. Also, the administrative and sealing processes are not as labour intensive for those contracts. For contracts above £100k, a sliding scale of fees is adopted. The costs are deemed reasonable and are reasonably related to the administrative and paralegal support required to prepare contracts for binding and sealing relative to the value, complexity and time input. The fees will enable efficient processing and issuing of contracts once awards of contracts are made by the Council and the contractor will pay the fees in order to enable sealing and completion.

8.3 Further information about these proposed charges are set out in Appendix D to this report.

## **9. Consultation**

9.1 The relevant elements of the report have been circulated to appropriate Divisional Directors for review and comment. Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

## **10. Financial Implications**

Implications completed by: Kathy Freeman, Finance Director

10.1 This report details the financial position of the Council.

## **11. Legal Implications**

Implications completed by: Fiona Taylor, Director of Law and Governance

11.1 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
- **Appendix B** – Progress against savings targets
- **Appendix C** – Capital Programme
- **Appendix D** – Detailed narrative on Legal Fees and Charges
- **Appendix E** – Schedule of Legal Fees and Charges