CABINET

23 November 2010

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: 2010/11 Budget Monitoring - April to September 2010	**For Decision**

Summary:

This report updates Cabinet with the Council's revenue and capital position for 2010/11 based on data to end September 2010.

The council started the 2010/11 financial year in a better financial position than twelve months ago with General Fund (GF) balances estimated at £8.1m, and a robust budget process to set meaningful 2010/11 budgets.

Central Government has already required that nationally local government needs to contribute £1.165bn toward the £6.2bn of in-year savings. The specific impact on the council is a reduction in funding of up to £5.5m. In order to protect the council's position the Corporate Director of Finance and Resources has instructed the council to continue with the measures put in place during 2009/10 to contain spend. Last month Cabinet approved in-year savings of up to £8.4m to address this shortfall in resources.

The projected service overspends (taking account of the in-year savings) have increased from £3.2m to £3.9m since the August 2010 report. The main reason for this is an increase in projected overspends in the Customer Services department. The 2010/11 budget includes a £3m contribution to GF balances. If the projected service pressures materialise then GF balances would not increase to the targeted £10m but drop by £0.9m to £7.2m.

The Housing Revenue Account (HRA) is projected to incur a deficit of £302k resulting in the decline of its balance from £3.4m to £3.1m. The HRA is a ring fenced account and cannot make contributions to the General Fund.

In regard to the Capital Programme, the current projection is that there will be an underspend of £1.5m but anticipated re-profiles are expected to result in spending to budget. Capital budgets cannot contribute to the General Fund although officers are working to ensure that all appropriate capitalisations occur.

Wards Affected: All

Recommendation(s)

The Cabinet is recommended to:

(i) Note the current projected outturn position for 2010/11 of the Council's revenue and capital budget as detailed in paragraphs 3 and 5 of the report, and Appendices A and C;
(ii) Note the position for the HRA as detailed in paragraph 4 of the report and Appendix B;
(iii) Approve the return to contingency of £603k from Customer Services as detailed in paragraph 3.1.5 of the report;
(iv) Approve the changes to capital budgets as detailed in paragraph 6 of the report and

Appendix D; (v) Note the Financial Health Indicators for quarter two as detailed in paragraph 7 of the report and Appendix E.
Reason(s) As a matter of good financial practice, the Cabinet should be regularly updated with the position on 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.
Comments of the Chief Financial Officer This report indicates the assessment that the council continues to face significant pressures in remaining within its 2010/11 budget, in particular following the in-year reduction in resources arising from the Governments emergency budget. The Corporate Director of Finance and Resources has already implemented actions to control spend and departments resources have been reduced to contribute towards the reduced corporate resources.
Comments of the Legal Partner Previous reports have advised Members of the obligation upon a billing authority to set a balanced budget each year by virtue of section 32 Local Government Finance Act 1992 taking account of required expenditure, contingencies and reserves among other things. Section 43 makes corresponding provision for major precepting authorities. Those sections require the relevant authorities to set an 'appropriate' level of reserves for the year in question. The reserves may be drawn upon during the year even if as a result they fall below the minimum. Members will note the reported position and comments made in relation to reserves and the budget position for this year going forward. Members will note the progress highlighted in this report and wish to satisfy themselves that sufficiently robust actions are being taken to manage service delivery within a shrinking budget base. Members will wish to be satisfied that appropriate actions are being taken to deal with any projected overspends and deliver services in the tougher economic climate the council finds itself in.

Head of Service: Jonathan Bunt	**Title:** Corporate Financial Controller	**Contact Details:** Tel: 020 8724 8427 E-mail: jonathan.bunt@lbbd.gov.uk
Cabinet Member: Councillor Geddes	**Portfolio:** Finance, Revenues and Benefits	**Contact Details:** Tel: 020 8227 2116 E-mail: cameron.geddes2@lbbd.gov.uk

1. Background

1.1 The Outturn report to Cabinet on 8 June 2010 reported that, as at 31 March 2010, general fund balances stood at £8.1m, an increase of £4.4m on the position twelve months earlier. This position is subject to review by external audit and therefore may change prior to the finalisation of the accounts.

1.2 This report provides a summary of the Council's General Fund (GF) revenue, HRA and Capital positions and consequent balances based on recurring pressures from last year, risks to anticipated 2010/11 savings, any new pressures and the effect of the reduced in-year resources.

1.3 It is important that the Council regularly monitors its revenue and capital budgets to ensure good financial management. It is now practise within the Council for this monitoring to occur on a regular monthly basis through both monthly briefing to the Cabinet Member for Finance, Revenues and Benefits, and this report to Cabinet. This helps Members to be regularly updated on the Council's overall financial position and to enable the Cabinet to make relevant decisions as necessary on the direction of both the revenue and capital budgets.

1.4 The report is based upon the core information contained in the Oracle general ledger system supplemented by examination of budgets between the budget holders and the relevant Finance teams. In addition, for capital monitoring there is the work carried out by the Capital Programme Management Office (CPMO).

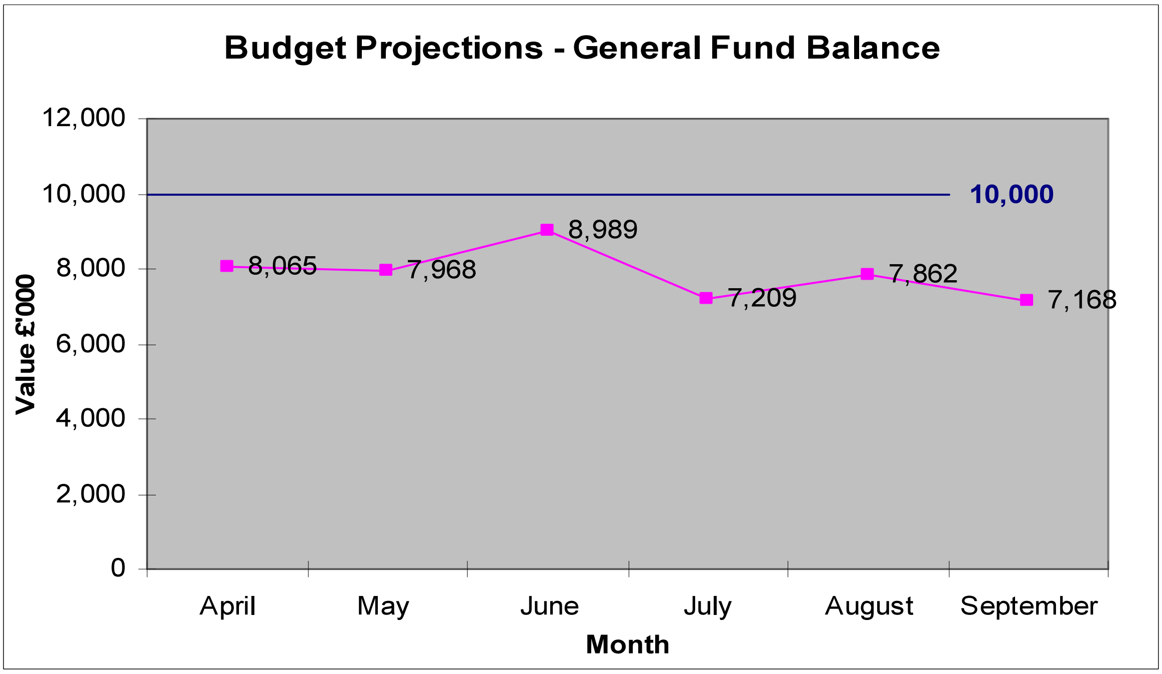
2 Current Overall Position

2.1 The impact of the current revenue projections to the end of the financial year is that the Council's General Fund balance will not increase by the anticipated £3m but reduce to £7.2m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances. Actions have already been put in place to reduce the Council's cash out-goings.

2.2 In the report to Members regarding the setting of the 2010/11 annual budget and Council Tax, the Corporate Director of Finance and Resources, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003, set a target GF reserves level of £10m. The current projected balance for the end of the financial year is below this level. Whilst the external auditor has not offered an opinion on a minimum acceptable level of general balances the Local Government Act 2003 requires the Authority to set an appropriate level of reserves.

When setting the HRA budget for 2010/11 the surplus anticipated for 2009/10 was £3.392m leading to estimated balances as at 31 March 2011 of £4.369m. The final 2009/10 outturn surplus was £2.423m giving the current opening balance of £3.4m.

	Balance at 1 April 2010	Projected Balance at 31 March 2011	Target Balance at 31 March 2011
	£000	£000	£000
General Fund	8,065	7,168	10,000
Housing Revenue Account (including Rent Reserve)	3,400	3,098	4,369



2.3 The current projected variance at the end of the year across the Council for the General Fund is shown in the table below.

	September Projected Variance £'000	August Projected Variance £'000	July Projected Variance £'000	June Projected Variance £'000	May Projected Variance £'000
<u>Service Expenditure</u>					
Adult and Community Services	**0**	**0**	**0**	**0**	**0**
Children's Services	**2,764**	**2,732**	**2,764**	**1,488**	**2,030**
Customer Services	**1,133**	**471**	**1,092**	**546**	**967**
Finance & Resources	**0**	**0**	**0**	**42**	**100**
General Finance	**0**	**0**	**0**	**0**	**0**
Total Service In-Year Pressures	**3,897**	**3,203**	**3,856**	**2,076**	**3,097**
<u>Corporate Issues</u>					
Budgeted contribution to balances	3,000	3,000	3,000	3,000	3,000
Total In-Year Pressures	**897**	**203**	**856**	**(924)**	**97**

2.4 Additional to the risks identified in the tables above are other pressures where the financial consequence is not yet known and where Directors and Head of Services are attempting to manage the issues. If, however, these pressures come to fruition either wholly or in part, then the financial position will worsen.

3 General Revenue Services

3.1 The departmental positions are shown in Appendix A. The key areas of potential overspend and risks are outlined in the paragraphs below.

3.1.1 **Adult and Community Services**

The department continues to project a break-even budget position for year end with the normal caution that this is based on activity for half of the year. The department's base budgets have now been reduced by the required £1.8m in-year savings made necessary by the national emergency budget. It anticipates the months ahead will be challenging to remain within budget.

There are significant pressures being experienced within its residential care budgets, particularly in relation to residential placements required from people leaving local hospitals. These pressures are presently being managed within the department.

The Department and its Management Team have a track record of dealing with issues and pressures throughout the year to deliver a balanced budget.

3.1.2 **Children's Services**

The department is projecting an overspend of £2.8m, consistent with the position reported last month. This projection includes the achievement of the department's allocated in-year savings target of £1.8m. The overspend relates to the increased demand on the Safeguarding and Rights placement budget and the overspend on the Legal budget due to increased costs associated with child protection cases. Overspends in Assessment staff costs and the Life Chances service (around £655k) are being managed in the service.

Children's Services DMT are making significant effort to reduce the overall overspend by identifying compensatory savings, reviewing commitments that will not be renewed or can be stopped in year, and considering alternative placements arrangements.

There are added pressures from intended government cuts in specific grant funding (£108k from the Training and Development Agency grant; £60k from Buddy Programme and the cessation of Contact Point grant from Quarter 2), unresolved claims from the implementation of Single Status and the rapid population growth that remain a significant concern which management is looking to find additional savings to mitigate.

A pressure (around £400k) in the transport of SEN children is being managed through the implementation of a Transport Strategy which has already brought a reduction in the number of routes plied from 49 to 39.

A number of posts are being held vacant to help offset the overspend and pressures.

Dedicated School Grant (DSG)
There are pressures of around £948k (£614k reported last month) as a result of additional funding not being made available to meet the additional number of places and children with SEN from September 2010. This will be managed in conjunction with the Schools Forum. Start up costs on equipment purchases for new schools also present additional pressures to this fund.

3.1.3 **Customer Services**

The department is forecasting an increased overspend of £1.1m, up by £662k, from the previous figure of £471k reported for the last period. This increase is predominantly due to the identification of additional income pressures and the deduction of in-year savings of £1.246m.

There are continuing budget pressures being experienced in staffing costs and income generation as previously reported. New income pressures have emerged in E&E Highways Maintenance relating to footway crossings (£391k) and R&B from council tax court costs that are not likely to be achieved due to a policy change.

Customer Services DMT is alert to these risks and is reviewing actions plans to ensure they are robust enough to continue to drive costs down through efficiency savings.

3.1.4 **Finance and Resources**

The department is projecting a break even position as per last month. This projection takes into account the achievement of its £3m in-year savings target. Significant work has been undertaken by both the departmental and divisional management teams to ensure the in-year budget pressures being experienced by some services are contained and spend is focused on achieving both its cash limited budget and in-year savings target. A number of posts are being held vacant in order to achieve these targets.

There is a pressure within marketing & communications in delivering savings and mitigating any potential overspend related to raising adequate sponsorship income and the review of design work. This requires close monitoring. The pressures reported last month in Legal Services in relation to the use of locum lawyers are being contained by holding posts vacant, having a tighter rein on in-year expenditure, and the funding approved earlier in the year for Legal Safeguarding & Rights.

3.1.5 **General Finance and Contingency**

General Finance continues to project break-even against its working budget.

An amount of £5.4m has been returned to contingency as a result of implementing the in-year savings requirement approved at the 28 September Cabinet meeting. As a result of these and previous transfers, the balance on contingency is £6.2m. Cabinet on 8 June allocated £1m from contingency to Customer Services in relation to increased costs of Revenues and Benefits. £603k of this allocation is not currently required and approval is sought to return this sum to contingency. The current level of contingency needs to be considered in relation to the continuing projected departmental overspends and the assumption that all the in-year savings are delivered.

4 Housing Revenue Account

4.1 The HRA is currently forecast to overspend by £302k compared to £417k projected overspend in August 2010. The key reasons for this improvement are better rental income streams from fewer void properties, a savings forecast in repairs and maintenance contract and a positive benefit from the review of the final subsidy claim and depreciation charges on non-dwellings. These positive changes are occurring within the context of mitigating actions that have been put in place.

4.2 The detailed HRA position is shown in Appendix B.

5 Capital Programme

5.1 At this stage in the year, it is projected that there will be an underspend of £1.5m of the revised and appraised budget for 2010/11, but following further anticipated re-profiles the spend is expected to be within budget. The departmental analysis is at Appendix C.

6 Capital Scheme Re-Profiles/Adjustments

6.1 The delivery of capital schemes is continuously reviewed to ensure that projects are completed on time and within budget. As a result of this ongoing review process a need to amend the budget and funding profiles of several schemes has been identified.

6.1.1 Becontree Heath Leisure Centre

A detailed review of the expected spend on this project has identified a requirement to re-profile the budget to increase the available funds in 2010/11. The current and proposed profiles are shown in Appendix D. The suggested amendments mean that corporate borrowing will increase in 2010/11 by £2.3m and be offset by reduced corporate borrowing in 2011/12.

6.1.2 Backlog Maintenance

This scheme undertakes essential maintenance works to Council buildings to ensure that they remain safe and comply with all relevant legislation. In order to complete key projects to several Council buildings a budget of £500k is required. Members previously agreed this budget in setting the 2009/10 four year programme on 17 February 2009 and approval is now sought to confirm its inclusion in the 2010/11 programme. The expenditure incurred will be funded from corporate borrowing.

The proposed net increase in borrowing of the above 2 items will not breach the Council's authorised limit on borrowing previously approved by members.

6.1.3 Dagenham Heathway

Additional funding for this project of £113k has been secured and received from Transport for London (TfL). This additional funding will be used to deliver the existing scheme and any revenue implications of this increased spend will be met within existing budgets.

6.1.4 Playbuilder

The Department for Education has confirmed that funding for this project will decrease by £170k to £430k. Project managers were prepared for this decrease in funding and have scaled back the elements to be delivered by the scheme accordingly.

7 Financial Health Indicators

7.1 To enable Members to monitor effectively on a quarterly basis we report the position against a range of financial health indicators. These indicators include income collection, level of variance from budget, prudential framework indicators and capital programme management. Attached at Appendix E is a list of the Council's significant health indicators for the period ending 30th September 2010. At this stage there is nothing significant to report.

8 Legal Issues

8.1 See summary section for Legal Partner comments

9 Other Implications

- **Risk Management**

The final financial position for 2009/10 is still subject to review by the external auditor and is therefore at risk of change. The risk to the Council is that if the currently projected overspends are not eliminated the level of balances will fall to a level which is below the level recommended by the Corporate Director of Finance and Resources in order to meet potential future financial risks.

- **Contractual Issues**

No specific implications

- **Staffing Issues**

As part of the measures to reduce in-year pressures a freeze on recruitment has been implemented. Recruitment will be limited to essential appointments only and overtime payments will be minimised. A Voluntary Severance Scheme has been run and over 100 staff will be leaving over the course of the next three months as a consequence. This will make a significant contribution to managing in-year pressures.

- **Customer Impact**

As far as possible all restraints have been placed on non-essential services spend. Some cuts may directly or indirectly affect customers but every effort will be made to mitigate any impact on front line services. All departments are required to consider the equalities impacts of their savings plans, and to put in place mitigating actions where necessary.

- **Safeguarding Children**

All actions taken to mitigate the overspend of the placements budget in Safeguarding and Rights will need to be undertaken within a risk management framework to ensure that the safeguarding needs of individual children are not compromised.

- **Health Issues**

No specific implications

- **Crime and Disorder Issues**

No specific implications

- **Property / Asset Issues**

Some non-essential maintenance to properties may be re-phased

10 Background Papers Used in the Preparation of the Report:

- Councils Provisional Revenue and Capital Outturn 2009/10 – Cabinet 8 June 2010, Minute 8
- 2010/11 Budget Monitoring Report, Cabinet 6 July 2010 Minute 26
- 2010/11 Budget Monitoring Report, Cabinet 28 September Minute 31

11 List of appendices:

Appendix A – General Fund Revenue Budget Monitoring Statement – September 2010
Appendix B – Housing Revenue Account (HRA) Budget Monitoring Statement – September 2010
Appendix C – Capital Programme Budget Statement – September 2010
Appendix D – Capital Programme Re-profiling
Appendix E – Financial Health Indicators