

## CABINET

15 February 2011

### REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

<b>Title:</b> 2010/11 Budget Monitoring - April to December 2010	<b>For Decision</b>
<p><b>Summary:</b></p> <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 2010.</p> <p>The Council began the current financial year in a better financial position than the previous year with a General Fund (GF) balance of £8m. The robust budget setting process has resulted in a more meaningful and deliverable 2010/11 budget.</p> <p>During the year, Central Government set an in year savings target of £6.2bn of which the local government sector was required to contribute £1.165bn; this resulted in a further reduction in the Council's funding of up to £5.5m for 2010/11. The Corporate Director of Finance and Resources has ensured that the measures put in place during 2009/10 to contain spending are continued in through the current year. To meet this challenge, Cabinet approved additional in-year savings of up to £8.4m on 28 September to meet the Government savings target and protect the previous year's improvement in the Council's reserves.</p> <p>At the end of December the full year service overspends (taking account of the in-year savings) are projected to be £2.2m; £0.5m less than the £2.7m position forecast at the end of November 2010 (as reported to Cabinet on 25 January 2011). The main reason for this is a decrease in projected overspends in the Customer Services and Children's Services departments reflecting the ongoing work to mitigate cost pressures.</p> <p>The 2010/11 budget includes a planned contribution of £3m to further improve GF balances. The current projected service pressures of £2.2m will result in GF balances increasing by only £0.8m to £8.8m rather than the target of £10m.</p> <p>The Housing Revenue Account (HRA) is projected to incur an underspend of £1m indicating that the year end balance would be £4.4m. The HRA is a ring fenced account and cannot make contributions to the General Fund.</p> <p>The Capital Programme is currently projecting slippage in budgeted expenditure of £5.3m. This represents the position on all the schemes in the capital programme approved by members, regardless of whether work has commenced yet or not. Capital budgets cannot contribute to the General Fund revenue position although officers are working to ensure that all appropriate capitalisations occur.</p> <p><b>Wards Affected:</b> None</p>	
<p><b>Recommendation(s)</b></p> <p>The Cabinet is recommended to:</p> <p>(i) Note the current projected outturn position for 2010/11 of the Council's revenue and</p>	

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) Note the position of the Contingency fund 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 three 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 as reduced by the imposition of the £5.5m 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 restricted Council 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.

Similarly Members are reminded of the Council's ongoing duty under section 28 Local Government Act 2003 to keep its financial position under review and if it appears that there has been a deterioration in its position it must take such action as it considers necessary to deal with the situation. 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.

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## 1. Background

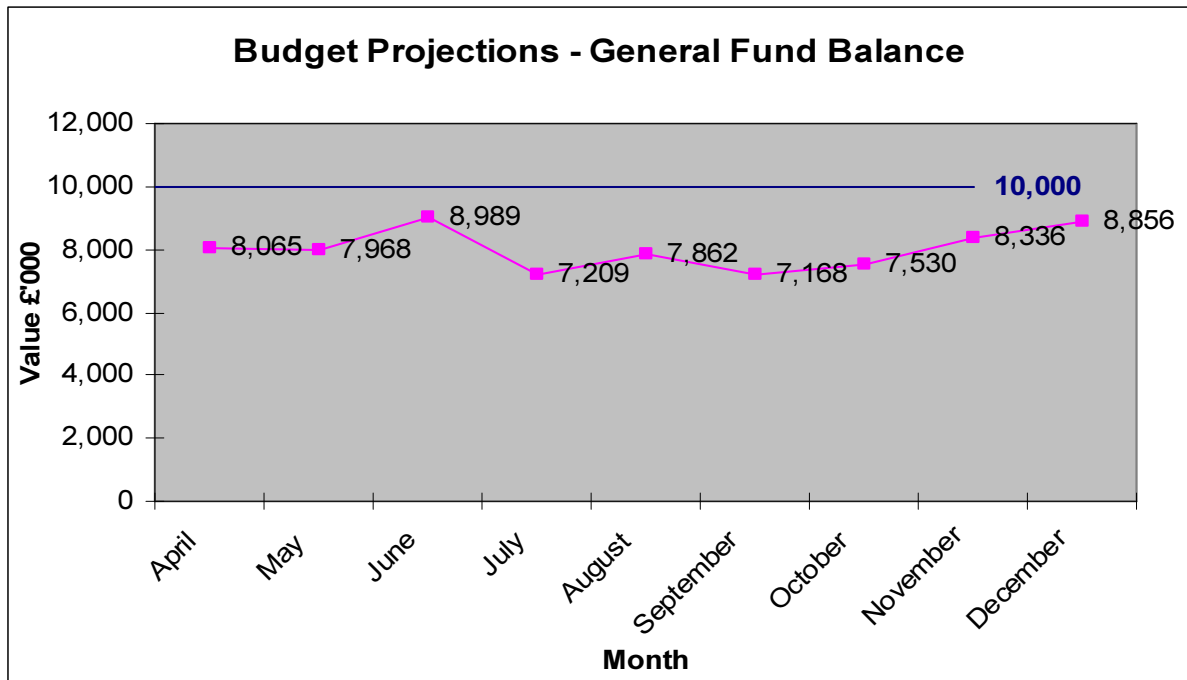
- 1.1 The Outturn report to Cabinet on 8 June 2010 reported that, as at 31 March 2010, general fund balances stood at £8m, an increase of £4.4m on the position twelve months earlier. This position has now been confirmed following completion of the audit of the Council's Statement of Accounts.
- 1.2 This report provides a summary of the Council's General Fund (GF) revenue and Capital positions, HRA 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. This is achieved within the Council by monitoring the financial results on a monthly basis through briefings to the Cabinet Member for Finance, Revenues and Benefits 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.
- 1.4 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 current revenue projections indicate an overspend of £2.2m for the end of the financial year indicating that the Council's General Fund balance will increase by the only £0.8m to £8.8m rather than the planned £10m. 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.

	<b>Balance at 1 April 2010</b>	<b>Projected Balance at 31 March 2011</b>	<b>Target Balance at 31 March 2011</b>
	£000	£000	£000
General Fund	8,065	8,856	10,000
Housing Revenue Account (including Rent Reserve)	3,400	4,401	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.

	<b>December Projected Variance £'000</b>	<b>November Projected Variance £'000</b>	<b>October Projected Variance £'000</b>
<u>Service Expenditure</u>			
Adult and Community Services	0	0	0
Children's Services	1769	2149	2557
Customer Services	440	529	816
Finance & Resources	0	51	162
General Finance	0	0	0
<b>Total Service In-Year Pressures</b>	<b>2209</b>	<b>2729</b>	<b>3,535</b>
<u>Corporate Issues</u>			
Budgeted contribution to balances	3,000	3,000	3,000
<b>Total In-Year Pressures</b>	<b>(791)</b>	<b>(271)</b>	<b>535</b>

- 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 is projecting a broadly break-even position for the year end. It remains alert to the challenges ahead to remain within budget particularly from the pressures evident at the interface with local hospitals and the PCT with impact on adult care and commissioning service budget. Pressures from the increasing number of children with care packages/ arrangements turning 18 years of age transferring over from Children's Services also remains a concern.

There are no significant budget pressures in the other service budgets at present although it seem inevitable the current recession would impact the income generation areas in Leisure and Arts.

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**

At the end of period 9, the department is projecting an overspend of £1.77m, a decrease of £380k from the figure reported last month. This reduction is in spite of a further increase of £184k on the overspend in Safeguarding and Rights. The decrease is the result of additional one-off income identified through the alternative use of grants and increased underspends in Quality Schools Improvements and Children's Policy and Trust Commissioning.

Skill, Learning and Enterprise services and Integrated Family Services continue to forecast underspends resulting from tighter cost control, the impact of the voluntary severance scheme and securing additional income. The overspends previously reported in Legal Services and Passenger Transport remain a challenge.

The pressures previously reported in government cuts in specific grant funding, unresolved claims from the implementation of Single Status and the rapid population growth reported previously continue to exercise management attention.

Management continue to review commitments that can be stopped in year and not renewed and identify compensating savings to offset the overspends. A spending freeze has been introduced with immediate effect with the intention to claw back budgets on supply and services near to period 10, based on budgets remaining to the year end.

## **Dedicated School Grant (DSG)**

The main pressure on the DSG remains that for the additional places required and related increase in children with SEN from September 2010. These pressures are estimated at around £900k. 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 overall overspend of £440k a decrease of £89k from £529k reported last period. This position reflects actions being taken by the departmental management team to bear down on the overspend. However budget pressures continue to be experienced in staffing costs and income generation which are becoming increasingly difficult to manage without effect on the delivery of the current services.

A reduced overspend of £483k (down by £185k) is now projected in E&E due mainly to the staff voluntary severance scheme and the reduced salary bill going forwards. The pressures previously reported in income generation, the delayed sign-off of the fleet management contract and the risk attached to the failure to rein in unplanned overtime and the use of agency staff, remain a concern.

An increased overspend of £357k is now projected in Revenue and Benefits based on actual spend to the transfer date plus the appropriate proportion of the remaining full year budget. There is no change in the subsidy projection however there are pressures from not achieving incomes from overpayment and court costs. Furthermore an increase in the provision for bad debts is likely and represents an additional pressure to consider. The Barking and Dagenham Direct service is projected to underspend by £357k, an increase of £49k from the last period. Revenue and Benefits and a large part of the Barking and Dagenham Direct service transferred to Elevate on 10 December 2010.

The Housing Service is projected to underspend by £42, a decrease of £80k from the last period. A pressure (£332k) has arisen from a gap between the cost of bed and breakfast accommodation and income received from housing benefits. This is in addition to the pressures previously reported in relation to staff costs and a housing benefit subsidy shortfall affecting private sector leased contracts resulting from changes to the rules. An action plan has been established to address this additional pressure. The service is also in discussion with the PCT about outstanding rental income but a provision has been made in the event this pressure materialises.

### **3.1.4 Finance and Resources**

At the end of this period, the department is projecting an underspend of £3m to be used to contribute to its in-year savings target. The departmental and divisional management teams have done a great deal of work to contain in-year budget pressures to remain within cash limits and achieve its in-year savings target of £3m.

The underspend has largely been achieved through the voluntary severance scheme and holding of vacant posts across the department. However reducing spend from the Area Based Grant, training and data security budgets and a cut in external work on corporate projects and tighter control on expenditure on the use of locum lawyers and

purchase of supplies and services have also contributed to this position. Income from the Council's Agency contract and from property and sponsored road schemes has also contributed to this projection.

There are continuing cost and income generation pressures within Marketing & Communications and Asset Management and Capital Delivery which are being closely monitored and managed.

### **3.1.5 General Finance and Contingency**

General Finance continues to project breaking-even on its working budget. The balance on contingency is currently £6.6m. 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 projected to underspend by £1,001k, a positive change of £1,039k from the last period. This has been achieved, in the main, from action taken by managers to review the cost of discretionary spend and eliminate planned activity which does not significantly impact on service delivery.
- 4.2 Revenue from residential tenants and commercial properties are projected to exceed expectation, however on the downside, recharges related to supervision and management costs are projected to overspend by £1,414k, an increase of £502k from the last period. The reasons for the overall overspend are unbudgeted security, leaseholders and pension costs (previously reported), funding for voluntary severance costs (£200k), additional staff costs for additional caretaking on intensive estates (£74k), Council tax on empty properties (£100k) and repairs to communal water supplies outside contract terms (£213k).
- 4.3 Continuing pressures in the Enterprise repairs and maintenance contract have been mitigated by underspends in the client team.
- 4.4 The HRA is forecasted to benefit from positive movements on the final HRA subsidy claim and depreciation of non-dwellings.
- 4.5 The detailed HRA position is shown in Appendix B.

## **5 Capital Programme**

- 5.1 As at the end of December, the capital programme is showing a spend of £61.56m which is 52% of the capital programme approved by cabinet. The projected outturn is £114.61m; showing a slippage of £5.3m.
- 5.2 The full departmental analysis of capital projects is provided at Appendix C.

## **6 Capital Scheme Re-Profiles/Adjustments**

- 6.1 A review of all capital projects has been undertaken and re-profiling of a number of schemes is required as shown in Appendix D. This has also been incorporated into the revised budget within Appendix C to enable a much better outturn and projected

slippage to be obtained.

- 6.2 Re-profiling for many schemes is required due to project sponsors awaiting funding confirmations from central government. These have only recently been confirmed subsequently schemes have either recently approved five green lights through the CPMO process or have yet to receive them. Consequently, spend projections have changed and budgets need to be re-profiled to accurately these profiles and to account for the delay in delivery.

## **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 31st December 2010. At this stage there is nothing significant to report.

## **8 Legal Issues**

- 8.1 The legal issues are covered in the section "Comments of the Legal Partner" earlier in the report.

## **9 Other Implications**

- **Risk Management**

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 that recommended by the Corporate Director of Finance and Resources in order to meet potential future financial risks and contributes to the rating of Corporate Risk 07 – Budget Management & Income Realisation.

- **Staffing Issues**

As part of the measures to reduce in-year pressures any recruitment has to be agreed at Director-level. A Voluntary Severance Scheme was instigated in July and over 100 staff will be leaving as a consequence. A further Scheme is now running, with a closing date for applications in early January, although this is unlikely to impact on the 2010/11 financial position..

- **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.



- **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

**11 List of appendices:**

**Appendix A** – General Fund Revenue Budget Monitoring Statement – November 2010

**Appendix B** – Housing Revenue Account (HRA) Budget Monitoring Statement – November 2010

**Appendix C** – Capital Programme Budget Statement – November 2010

**Appendix D** – Capital Programme Re-profiling

**Appendix E** – Financial Health Indicators