

CABINET

12 July 2011

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: Budget Monitoring Report: April 2011 to May 2011	For Information
<p>Summary:</p> <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 2011.</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 £10.8m. The robust budget setting process has resulted in a more meaningful and deliverable 2011/12 budget.</p> <p>At the end of May 2011, total Service expenditure for the full year (before taking account of the planned in-year savings) is projected to be £187.7m against a budget of £183.4m; a projected overspend of £4.3m. The overspends arise in Children's Services (safeguarding cost pressures), Customer Services (reduced income from parking and cost pressures in Housing and Environmental divisions) and Resources and Finance (due to budget errors in Revenue and Benefit income). Further explanatory summaries are contained in section 3 of this report.</p> <p>The 2011/12 budget includes a planned contribution of £1.5m to further improve GF balances. The current projected service pressures of £4.3m, less the planned contribution to balances of £1.5m, could result in the General Fund balances reducing by £2.8m to £8.1m and action plans are being developed to mitigate the forecast overspend.</p> <p>The Housing Revenue Account (HRA) is currently projected to meet its target of break-even. The HRA is a ring fenced account and cannot make contributions to the General Fund.</p> <p>The Capital Programme has been updated to reflect project roll-overs and changes approved at Cabinet on 14 June and stands at £145.9m. This represents the position on all the schemes in the capital programme and reflects roll-forwards agreed by Cabinet on 14 June 2011. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p> <p>Wards Affected: None</p>	
<p>Recommendation(s)</p> <p>The Cabinet is recommended to note:</p> <ul style="list-style-type: none">(i) the initial projected outturn position for 2011/12 of the Council's revenue and capital budget as detailed in paragraphs 3 and 5 of the report;(ii) the position for the HRA as detailed in paragraph 4 of the report;(iii) the position of the Contingency fund as detailed in paragraph 3.1.5 of the report;(iv) the updated Capital budget as detailed in paragraph 6 of the report.	

<p>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.</p>		
<p>Comments of the Chief Financial Officer This initial review of 2011/12 performance indicates that the council continues to face significant pressures in its Environmental Services division. The Corporate Director of Customer Services has initiated a detailed review of this area and progress will be reviewed and reported. The Corporate Director of Finance and Resources continues to monitor actions to control spend and departments savings targets set within the budget are delivered.</p>		
<p>Legal Comments 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.</p> <p>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. It is to be noted that a robust financial position based on effective past measures is here reported. 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.</p>		
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1. Background

- 1.1** The Outturn report to Cabinet on 14 June 2011 reported that, as at 31 March 2011, general fund balances stood at £10.8m, an increase of £2.8m on the position twelve months earlier. This position will be 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 and the HRA. It also provides an update on progress made to date in the delivery of the agreed savings targets built into the 2011/12 budget setting out risks to anticipated 2010/11 savings and action plans to mitigate the risk.

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 Directorate revenue projections (before the planned contribution to balances of £1.5m) indicate an overspend of £4.3m for the end of the financial year of which:

- £1.3m arises from budget pressures in Children's Service due to continuing safeguarding and placement costs;
- £1.1m arises from reduced income from parking charges and cost pressures in Environmental Services;
- £1.9m in Finance and Resources due to recharge errors in Revs and Bens and debt recovery risk in Housing Benefit overpayments.

The initial net forecast of £2.8m (£4.3m less £1.5m) would result in the Council's General Fund balance falling below the budgeted target of £10.0m. 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 2011/12 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 £10.0m. The General Fund balance at 31 March 2011 (subject to audit) was £10.8m and the current projected balance for the end of the financial year (including the planned contribution to balances of £1.5m) is £8.1m.

The HRA budget for 2011/12 was set at break-even for the year leaving the surplus for 2010/11 of £4.5m (subject to audit) unchanged at the end of 2011/12.

	Balance at 1 April 2011	Projected Balance at 31 March 2012	Target Balance at 31 March 2012
	£000	£000	£000
General Fund	10,831	8,052	10,000
Housing Revenue Account (including Rent Reserve)	4,450	4,450	4,450

- 2.3 The current full year projection to 31 March 2012 across the Council for the General Fund is shown in the table below.

Council Summary	Net Budget £'000	Full year projection at May 2011 £'000	Over/(under) Budget Projection £'000
<u>Directorate Expenditure</u>			
Adult and Community Services	64,789	64,789	-
Children's Services	65,144	66,444	1,300
Customer Services	26,858	27,908	1,050
Finance & Resources	13,392	15,321	1,929
Chief Executive Office	591	591	-
General Finance	12,608	12,608	-
Total Service Expenditure	183,382	187,661	4,279
Planned Contribution to Balances			(1,500)
Total Projection at end of May			2,779

- 2.4 Additional to the pressures identified in the tables above are other issues where the financial consequence is not yet known and where Directors and Head of Services are attempting to manage these issues.

3 Directorate Performance Summaries

The key areas of potential overspend and risks are outlined in the paragraphs below.

3.1 Adult and Community Services:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	69,951	64,789	64,789
Projected overspend			-

The Directorate is projecting a break-even position for the year end but is facing severe pressure at the interface with local hospitals and the Primary Care Trust (PCT).

The Directorate is managing its overall budget which includes a savings target of £4.6m (6.5% of its outturn for 2010/11) and the management team have a track-record of dealing with in year issues and pressures to ensure the delivery of a balanced budget.

3.2 Children's Services:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	61,913	65,144	66,444
Projected overspend			1,300

Children's Services are still experiencing significant pressures on the Placements budget of £3.2m. This level of pressure is in line with placements overspend from 2010/11. There is currently a Placements Recovery plan in place to manage down this pressure which is monitored and challenged on a monthly basis.

In order to bring down the service to a year end position of £1.3m overspend, the Director of Children's Services is currently reviewing all the other service areas for additional in year savings. It has also been agreed that some of the savings proposed for 2012/13 will be brought forward and realised during 2011/12, in order to further reduce the placements pressure.

Children's Services are also working closely with the internal Legal Practice to ensure that the £600k overspend incurred in 2010/11 does not occur in 2011/12 and is managed down as far as possible.

In terms of the delivery of the £4.5m savings agreed for 2011/12, some slippage has been identified relating to the organisational efficiency saving of £1.6m and Directorate managers are in the process of identifying additional savings to mitigate against this. At present, Children's Services remain on track to deliver the £4.5m savings.

Dedicated School Grant (DSG)

The Children's Service budget includes £184.0m (2010/11; £155.3m) in respect of DSG.

3.3 Customer Services:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	26,423	26,858	27,908
Projected overspend			1,050

At the end of May 2101 the Directorate is forecasting a full year overspend of £1.1m subject to the effective management of significant budget pressures in Environmental Services (£0.875m) and General Housing provision (£0.175m). The current budget pressures are summarised below:

- Environmental Service pressures mainly arise from reduced income (parking £0.5m and Trade Waste £0.3m)), higher staffing costs (£0.3m) and higher repair workshop costs (£0.2m) in part offset by £0.3m savings in Trading Standards and increased income from Barking Market. A zero based budgeting project is currently underway to challenge the cost and operational base of the Environmental Services division which should assist in controlling the current level of overspend in this area.
- The General Housing overspend arises from increased demand for "bed and breakfast" accommodation which cannot be recovered through Housing Benefit. An action plan is in place to maximise the use the Council's own housing stock is progressing and is expected to reduce the projected overspend.

3.4 Finance and Resources:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	11,805	13,392	15,321
Projected overspend			1,929

The Directorate is projecting an overspend of £1.9m reflecting the continuing risk of debt recovery in Housing Benefit overpayments (£0.4m) and a shortfall in Revenue and Benefit income recharges (£1.5m).

Increasing focus on debt management through the Elevate partnership is expected to mitigate the debt recovery risk and the Corporate Director of Finance & Resources is currently reviewing the income recharges in Revenues and Benefits. These areas will be closely monitored and progress reported through the year to manage the risk of overspend.

3.5 Chief Executive Office:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	1,385	591	591
Projected overspend			-

The Chief Executive Office includes Legal & Democratic Services and Corporate Policy & Corporate affairs which used to be reported as part of Resources and Finance in 2010/11. The Directorate is currently projected to meet its budget.

3.6 General Finance:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	(19,482)	12,608	12,608
Projected overspend			-

General Finance is projecting a breaking-even position for its budget at the end of May. A more accurate position will be available following the completion of the closure of accounts process at the end of June.

4 In Year Savings targets

The delivery of the 2011/12 budget is dependent on meeting substantial savings targets. Directorate management teams are monitoring their targets and providing a monthly update of progress which is summarised below:

Directorate Summary of Savings Targets	Target £000	Projection £000	Shortfall/at risk £000
Adult and Community Services	4,620	4,620	-
Children's Services	4,500	4,500	-
Customer Services	4,264	3,110	1,154
Finance & Resources	2,960	2,960	-
Chief Executive Office	-	-	-
General Finance	4,000	4,000	-
Total	20,344	19,190	1,154

The savings shortfalls have been included in the Directorate projections set out in section 3 above.

5 Housing Revenue Account

The HRA is currently projected to meet its target of a break-even budget for 2011/12.

6 Capital Programme

The Capital Programme budget has been updated to reflect the capital roll forwards approved by Cabinet on 14 June 2011 and the full Directorate analysis of capital projects will be provided with the June 2011 report.

Directorate Summary of Capital Expenditure	Original Budget £000	Revised Budget £000	Projected Outturn £000	Projected (under)/overspend £000
Adult and Community Services	10,963	12,611	14,022	1,411
Children's Services	70,785	65,232	69,875	4,643
Customer Services	38,016	48,598	33,995	(14,603)
Finance & Resources	15,680	19,458	21,731	2,273
Total	135,444	145,899	139,623	(6,276)

The under-spend in Customer Services is due to budgets yet to be allocated to projects and this issue will be resolved during June. Over-spends in the other service areas are mainly due to budgets which need to be allocated to the correct project and this will also be clarified during June.

7 Legal Issues

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

8 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.

- **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. A global equalities impact assessment was reported to Assembly as part of agreeing the 2011/12 annual budget and Council Tax.

- **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.

9 Background Papers Used in the Preparation of the Report:

- Provisional Revenue and Capital Outturn 2010/11; Cabinet 14 June 2011
- Budget and Medium Term Plan 2011/14; Cabinet 26 February 2011