

CABINET

23 August 2011

REPORT OF THE CABINET MEMBER FOR FINANCE, REVENUES AND BENEFITS

Title: 2011/12 Budget Monitoring Report: April to June 2011	For Information
<p>Summary:</p> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the three months to the end of June 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.</p> <p>At the end of June 2011, total Service expenditure for the full year is projected to be £187.9m against the approved budget of £183.4m; a projected overspend of £4.5m. The overspends arise in Children's Services (Complex Needs and Social Care), Customer Services (reduced income and cost pressures in Housing and Environmental divisions) and Resources and Finance (due to an over stated income budget in Revenues and Benefits). 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 £4.5m, less the planned contribution to balances of £1.5m, could result in the General Fund balance reducing by £3.0m to £7.8m without action plans being developed to mitigate the forecast overspend.</p> <p>The report includes a request to transfer £330k of Think Family Funding from Children's Services to Adults to support Youth Offending Services.</p> <p>The Housing Revenue Account (HRA) is currently projected to contribute £1.3m to the HRA reserve, down from the budgeted £1.5m contribution. 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. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p> <p>The report includes a request to make budget adjustments to the existing capital programme as detailed in appendix E.</p> <p>Wards Affected: None</p>	
<p>Recommendation(s)</p> <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the projected outturn position for 2011/12 of the Council's revenue and capital budget as detailed in paragraphs 3 and 6 of the report;(ii) Note the progress against the 2011/12 savings targets in paragraph 4 of the report;(iii) Note the position for the HRA as detailed in paragraph 5 of the report;	

(iv) Approve the revenue and capital budget adjustments as set out in the report.

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 initial review of 2011/12 performance indicates that the council continues to face significant pressures in the cost of Children's placements and in its Environmental Services division. The Corporate Director of Customer Services has initiated a detailed review of the Environment and Enforcement budgets and progress will be reviewed and reported. The Corporate Director of Finance and Resources continues to monitor actions to control spend and ensure departmental savings targets, set within the budget, are delivered.

Comments of the Legal Practice

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. 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.

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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 in late summer.

- 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 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 £4.5m for the end of the financial year of which:
- £1.3m arises from budget pressures in Children's Service. An overspend of £3.3m within the Complex Needs and Social Care budget is forecast, offset by a projected £2.0m under spend in Management and other costs;
 - £1.1m arises from cost pressures in Environmental Services, and General Fund Housing;
 - £2.1m in Finance and Resources due to an error in setting the income budgets in Revenues and Benefits and debt recovery risk in Housing Benefit overpayments.

The initial net forecast of a £3.0m overspend (£4.5m 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 £7.8m.

The HRA budget for 2011/12 includes a contribution to the HRA reserve of £1.5m. At the end of June, the HRA is forecast to overspend by £0.2m which when adjusted for the contribution to balances (£1.5m) would result in a net increase in funds of £1.3m.

	Balance at 1 April 2011	Projected Balance at 31 March 2012	Target Balance at 31 March 2012
	£'000	£'000	£'000
General Fund	10,841	7,790	10,000
Housing Revenue Account (including Rent Reserve)	4,448	5,755	4,448

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 June 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	27,998	1,140
Finance & Resources	13,392	15,503	2,111
Chief Executive Office	591	591	-
General Finance	12,608	12,608	-
Total Service Expenditure	183,382	187,933	4,551
Planned Contribution to Balances			(1,500)
Total Projection at end of May			3,051

2.4 The projection set out in the table above excludes the potential impact of cost pressures identified within the service directorates, which are more fully explained in section 3 below. Directorate management teams are actively developing action plans to control these pressures which will be monitored closely during July and August.

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 Adult and Community Service budget position at month 3 of the 2011/12 financial year is projecting a break-even position for the year end.

The Directorate is experiencing severe pressures at the interface with local hospitals and the PCT at this time, which may have led to budget overspends if the Directorate had not been successful in securing through negotiation the funding 'to support social care where it benefits health' of £2.4 million. It should be noted that discussions continue with the ONEL PCT cluster about the impact of their budgetary policy on jointly commissioned services and on Council services.

The current budgets reflect savings decisions made last year as part of the Council Tax setting process, which amounted to reductions of £4.62m from the ACS Budget this will represent a challenge to deliver without service detriment.

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

Savings targets are currently showing a potential shortfall of £180k due to pressures in the following areas:

- Community Halls – there has been a delay on the transfer of the buildings to community associations and this is a potential savings risk;
- Community Equipment – this budget has had significant pressures due to a high demand and is now showing an overspend of £80k which is being off-set by other savings within the directorate;
- Mental Health placement budget are struggling with a demand pressure which they are managing through the social care funding in establishments.

The Directorate will ensure that these savings are met through managing other budgets robustly.

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 projecting a full year overspend of £1.3m this is due to Children's Complex Needs and the Children's placements budget which continue to experience pressures of approximately £3.3m. This is a reduction compared to the pressures experienced last year of over £4m.

Of the £4.5m savings put forward for 2011/12, there are risks to the delivery of certain savings however it is expected that each divisional director will manage the risks and achieve their savings targets.

Cabinet are requested to approve the transfer of £330k Think Family Funding from Children's Services to Adults. This is in respect of the Family Intervention Programme that has now been mainstreamed into the Early Intervention Grant to support youth offending services.

Dedicated School Grant (DSG)

The Council retains £17.9m of the DSG in 2011/12 (2010/11; £16.3m).

3.3 Customer Services:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	28,202	26,858	27,998
Projected overspend			1,140

The Projected spend for Customer Services as at period 3 is £27,998k, which is an over spend of £1,140k. The main pressures are:

- Refuse income related to trade waste;
- Staff costs in refuse;
- Vehicle Fleet – continued spot hire pending supply of new vehicles under Translinc contract;
- Rising fuel & energy prices above budgeted inflation;
- Reduction in school buy-backs – mainly impacting on refuse and grounds maintenance;
- Temporary accommodation costs due to changes in Housing Benefit Subsidy rules. The service is addressing this through a combination of converting more expensive PSL (Private Sector Landlords) on to a lower cost portfolio, as well as using the council's own properties where feasible;
- Share of joint venture shortfall in funding;
- Delivery of 2011/12 savings.

The overall savings target for Customer Services was £4,264k of which the latest forecast is that £3,150k will be delivered this year. The shortfall for 2011/12 is £1,114k. Management action plans have been drawn up to mitigate the above pressures and the projections above reflect the net position. There is a risk of non-delivery of the additional savings required, over and above those formally agreed for the year, to offset those pressures.

3.4 Finance and Resources:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	10,388	13,392	15,503
Projected overspend			2,111

At this early stage of the year the Finance & Resources department is projecting a £2.1m overspend which is mainly due to the Directorate inheriting the budget pressures already existing within the Revenues & Benefits service at the point of transfer. £1.5m of this pressure has been highlighted in the MTFs and a separate Cabinet report will be submitted to consider a release from the Council's contingency budget to cover the budget shortfall. The remaining overspend relates to an increase in the Housing Benefit overpayments bad debt provision (£0.3m) and court fees (£0.3m). The department is currently considering how to mitigate the

pressures to ensure that it does not overspend, but at this stage it is confident that it will be able to deliver its services within its overall approved working budget.

The Directorate is expecting to achieve its 2011/12 saving targets.

3.5 Chief Executive Office:

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	1,023	591	591
Projected overspend			-

The Chief Executive Office will be able to deliver their services within the approved working budget. Some services have experienced early budget pressures, due to a delay in implementing their new structures, but as these are known work has already commenced to ensure that the overall spend is kept within the approved cash limited budgets.

The Directorate is expecting to achieve its 2011/12 saving targets.

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 continues to project a breaking-even position for its budget at the end of June.

As part of the General Finance savings target for this year, £1.0m was planned to be generated through the implementation of revised Terms and Conditions of Employment across the Council. This major project has commenced but is now unlikely to generate the full year savings included in the 2011/12 budget in the current year. An impact assessment arising from the delay in implementing this project is currently being prepared by Human Resources. It is likely that Cabinet will be asked, in a future report, to release an element of the £2.7m budget contingency to offset any shortfall in the planned saving.

4 In Year Savings targets

The delivery of the 2011/12 budget is dependent on meeting a substantial savings target of £20.3m. Directorate management teams are monitoring their targets and providing a monthly update of progress which is summarised in the table below. The savings shortfalls have been included in the Directorate projections set out in section 3 above.

Directorate Summary of Savings Targets	Target £'000	Projection £'000	Shortfall £'000
Adult and Community Services	4,620	4,440	180
Children's Services	4,500	4,500	-
Customer Services	4,264	3,150	1,114
Finance & Resources and CEO	2,960	2,960	-
General Finance	4,000	4,000	-
Total	20,344	19,050	1,294

5 Housing Revenue Account

There is a budget pressure on the HRA as at period 3 of £160k. However, the HRA budget includes a contribution to the HRA reserve of £1,467K and this pressure would result in a net contribution to reserves of £1,307K. The budget pressure relates mostly to:

- Rising energy and insurance costs which may not all be recoverable in year from tenants/leaseholders;
- Severance costs of £161k have been offset by reduced staffing costs where there are some vacant posts;
- The projected outturn includes allowances to cover the part year costs of additional Metropolitan Police Officers as well as potential costs associated towards tendering of a new Repairs and Maintenance contract.

A detailed HRA is provided in appendix C.

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 Variance £'000
Adult and Community Services	10,963	12,611	12,610	(1)
Children's Services	56,993	65,271	64,147	(1,124)
Customer Services	38,017	48,600	38,105	(10,495)
Finance & Resources	15,682	19,457	18,999	(458)
Total	121,655	145,939	133,861	(12,078)

- At the end of the first quarter (30 June 2011) the overall status of LBBDD's Capital Programme is 'Amber'; with the exception of Customer Services which has a status of 'Amber', the remaining 3 departments have attained a status of green.
- Adult and Community Services – Projects are expected to be on budget.
- Children's Services – The under spend is mainly attributed to the Skills Centre, which is only expected to require £8.8m of its £10.2m budget.
- Customer Services – HRA projects have been allocated more budget than required. These surplus budgets will be reprofiled to new HRA projects where it is expected the budget will be spent in this financial year.

- Finance & Resources – The Corporate Accommodation Strategy is currently projecting a £0.4m underspend on an overall budget of £2.2m.
- All projects continue to be robustly monitored by CPMO and supporting Finance Teams, ensuring appropriate compliance is adhered to.

The detailed capital Programme is available at appendix D with budget adjustment requests contained within appendix E.

7 Financial Control

At the end of the first quarter all key reconciliations have been prepared and reviewed, no major unidentified items were left unreconciled.

Appendix F provides a summary of the reconciliations, their status and risk score.

8 Legal Issues

The legal issues are covered in the section “Comments of the Legal Practice” earlier in the report.

9 Other Implications

- **Risk Management**

The risk to the Council is that if the currently projected overspends are not managed effectively the level of balances will fall below the recommended value of £10m as set 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.

10 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

11 Appendices

A – General Fund expenditure by Directorate
 B – Savings Targets by Directorate
 C – Housing Revenue Account expenditure
 D – Capital Programme
 E – Requested Capital Budget Adjustments
 F – Key Reconciliations