

CABINET

17 JANUARY 2012

Title: Budget Monitoring 2011/12 - April to November 2011	
Report of the Cabinet Member for Finance and Education	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Summary: <p>This report provides Cabinet with an update of the Council's revenue and capital position for the seven months to the end of November 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 November 2011, total Service expenditure for the full year is projected to be £184.6m against the approved budget of £183.4m; a projected over spend of £1.2m. The over spends arise in Children's Services (Complex Needs and Social Care), Housing and Environment (reduced income and cost pressures in Environmental divisions) and Finance and Resources (due to an over stated recharge budget in Revenues and Benefits). Further explanatory summaries are contained in section 2 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 £1.2m, less the planned contribution to balances of £1.5m, could result in the General Fund balance increasing by £0.3m to £11.1m.</p> <p>The Housing Revenue Account (HRA) is projected to contribute £45k less than budgeted to the HRA reserve. The projected contribution to the HRA reserve currently stands at £1.4m. 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 the budget stands at £158.2m; 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. The report includes a request to make budget adjustments to the existing capital programme as detailed in appendix E.</p>	

Recommendation(s)

The Cabinet is recommended to:

- (i) Note the projected outturn position for 2011/12 of the Council's revenue budget as detailed in paragraphs 2.3 to 2.11 of the report;
- (ii) Note the progress against the 2011/12 savings targets in paragraph 2.12 of the report;
- (iii) Note the position for the HRA as detailed in paragraph 2.13 of the report;
- (iv) Note the projected outturn position for 2011/12 of the Council's capital budget as detailed in paragraph 2.14 of the report;
- (v) Approve the transfers from contingency as set out in paragraph 2.15 of the report;
- (vi) Approve the capital budget adjustments as set out in appendix E of 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.

1 Introduction and 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 has 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 and HRA revenue and capital positions. 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 over spend of £1.2m for the end of the financial year of which:

- £0.5m arises from pressures in Children's Services. An over spend of £1.9m within the Complex Needs and Social Care budget is forecast offset by a projected £1.4m under spend against the Targeted Support and the Commissioning budgets;
- £0.7m arises from cost pressures in Environmental Services (0.6m) and General Fund Housing (0.1m);
- £1.4m in Finance and Resources due to an error in setting the recharge budgets in Revenues and Benefits;
- (£0.5m) under spend in the Chief Executive's Directorate due to vacancies and under spends in the corporate training budget;
- (£0.9m) under spend in Central Expenses due to lower interest payments and a one off VAT claim.

The initial net forecast of a £0.3m under spend (£1.2m less £1.5m) would result in the Council's General Fund balance remaining above 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 net 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 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 £11.1m.

The HRA budget for 2011/12 includes a contribution to the HRA reserve of £1.5m. At the end of November, the HRA is forecasting an over spend of £45k.

	Balance at 1 April 2011	Projected Balance at 31 March 2012	Target Balance at 31 March 2012
	£'000	£'000	£'000
General Fund	10,841	11,150	10,000
Housing Revenue Account (including Rent Reserve)	4,448	5,872	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	Full year projection at November 2011	Over/(under) Budget Projection
	£'000	£'000	£'000
<u>Directorate Expenditure</u>			
Adult and Community Services	64,880	64,880	-
Children's Services	65,555	66,055	500
Housing and Environment	20,625	21,341	716
Finance and Resources	19,232	20,643	1,411
Chief Executive	931	415	(516)
Central Expenses	12,159	11,239	(920)
Total Service Expenditure	183,382	184,573	1,191
Planned Contribution to Balances			(1,500)
Total Projection at end of November 2011			(309)

2.4 Directorate Performance Summaries

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

2.5 Adult and Community Services

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	69,951	64,880	64,880
Projected over/(under)spend			-

The Adult and Community Service (ACS) budget position at month 8 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 over spends 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. 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 £4.6m 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 £200k due to pressures in the following areas:

- Community Equipment (ACS/SAV/26) – this budget has had significant pressures due to a high demand and is now showing an over spend of £100k which is being off-set by other savings within the directorate;
- Mental Health (ACS/SAV/27) – placement budgets are experiencing pressure which they are managing through the social care funding and establishments.

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

2.6 Children's Services

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	61,913	65,555	66,055
Projected over/(under)spend			500

Last month the Children's Service was reporting a pressure of £1.2m. Management actions were in place to reduce the pressure to £0.7m to £0.9m by the end of the financial year.

At month 8, the Service is reporting a significantly reduced year end pressure of around £0.5m, a reduction of £0.7m. This reduction is as a result of management actions to hold back all non-essential spend in light of budgetary pressures and the reduction of expenditure in the current financial year to ensure savings approved for 2012/13 will be achieved in full. Managers are continuing to identify actions to further reduce the pressure of £0.5m by year end.

A number of the management actions identified to reduce pressures in 2011/12 are non-recurrent and will not be available in 2012/13 as they form part of approved savings. The non-recurrent management actions, at month 8, total £2.0m of which £0.5m relates to maximising grant flexibilities and £1.5m relates to holding back on non-essential spend, vacancy management and bringing forward 2012/13 savings.

The service is committed to finding the £4.5m of savings built into the 2011/12 budget. There are risks around some of these savings and a £174k shortfall is currently projected:

- £35k Court Assessment Team (CHS/SAV/21) – There are pressures reported against this budget and these are being reviewed with a view to managing this pressure by year end;
- £39k Woodland premises costs (CHS/SAV/32) – This property is still operational and the savings will not be achieved in 2011/12. The shortfall will be met elsewhere within the service.
- £100k Charging for CiC (CHS/SAV/37) – The charging policy is currently being developed in preparation for 2012/13.

2.7 Dedicated School Grant (DSG)

DSG is a ring-fenced grant that is allocated to Schools. As such there can be no under or over spend. The Council retains £17.9m of the DSG in 2011/12 (2010/11; £16.3m) to spend on central education services.

2.8 Housing and Environment

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	23,961	20,625	21,341
Projected over/(under)spend			716

At the end of November 2011 Housing and Environment is forecasting to over spend by £716k which is £50k less than the previous month's over spend position of £766k. There is an additional pressure this month due to increased costs from delivery of orange bags as well as overtime/agency staff costs arising from the impact of the strike and Remembrance Day.

The main other pressures are:

- Refuse income related to trade waste;
- Staff costs in refuse;
- Rising fuel & energy prices above budgeted inflation;
- Parking pressures relating to supplies and services, income and debt management;
- Reduction in school buy-backs impacting on refuse and grounds maintenance income;
- Temporary accommodation costs due to changes in Housing Benefit Subsidy rules. The service is addressing this through a combination of converting more expensive Private Sector Landlords on to a lower cost portfolio, as well as using the Council's own properties where feasible.

The overall savings target for Housing and Environment was £4.3m of which the latest forecast is that £3.3m will be delivered this year leaving a shortfall of £1.0m. This is due to:

- £52k Road Safety (CUS/SAV/9) – The service has to bear the costs of 2 FTEs for 2 months until the process is completed in January 2012;
- £35k Street Scene Call Outs (CUS/SAV/7) - Due to delay in implementing revised staff terms and conditions;
- £596k Parking CPZ (CUS/SAV/6) - Of the areas consulted only 12 roads have been agreed for CPZ implementation. New income streams will be generated to offset this shortfall;
- £30k Parks & open spaces (CUS/SAV/5) – Delay in implementing revised staff terms and conditions;
- £125k Redesigning street cleansing operations (CUS/SAV/2) - Cleansing was over its establishment by 10 staff over a period of 5 months due to a delay in implementing revised staff terms and conditions;
- £174k Street Scene Parking – Delay in implementing staff permits (£117k) and lower than budgeted parking income (£57k).

The pressures are being managed by a strong action plan including limiting spend on non-essential items and by offset of the £750k of Directorate contingency. There is a risk that the reported over spend may increase if proposed action plans slip.

The service is also bringing forward efficiency savings planned for 2012/13 e.g. double-shifting.

2.9 Finance and Resources

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	14,662	19,232	20,643
Projected over/(under)spend			1,411

The Finance & Resources department is projecting a £1.4m over spend that is an increase from last month. The over spend is mainly due to the Directorate's inherited budget pressure of £1.4m already existing within the Revenues & Benefits service at the point of transfer. This pressure has been highlighted in the Medium Term Financial Strategy and a request to transfer £1.4m from Contingency to meet this pressure is contained in paragraph 2.15 of this report.

There have also been under spends across the department mainly from vacant posts.

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

2.10 Chief Executive

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	991	931	415
Projected over/(under)spend			(516)

The Chief Executive Directorate is currently reflecting a £516k under spend mainly due to part year vacancies and an under spend within the Human Resources Corporate Training budgets. Some services have experienced early budget pressures due to a delay in implementing their new structures but these have been identified at an early stage and mitigating actions have now resulted in service under spends.

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

2.11 Central Expenses

Directorate Summary	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	(19,482)	12,159	11,239
Projected over/(under)spend			(920)

As part of the Central Expenses 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 has now been implemented but will not generate the full year saving included in the budget. In 2011/12, as implementation occurred part way through the financial year, only part of the saving will be achieved. An impact assessment arising from the delay in implementing this project has been undertaken and shows a £630k shortfall. A budget transfer from contingency has taken place to offset this pressure.

Following a change to the Value Added Tax (VAT) liability of various Council services the Council successfully submitted a one off VAT claim for £420k. The claim related to VAT payments made over a number of years.

Due to the management of our cash balances a net under spend of £500k is projected against the budgets for interest payable and interest receivable.

2.12 In Year Savings Targets

The delivery of the 2011/12 budget is dependent on meeting a 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 2.5 to 2.11 above. A detailed breakdown of savings is provided in appendix B.

Directorate Summary of Savings Targets	Target £'000	Projection £'000	Shortfall £'000
Adult and Community Services	4,620	4,420	200
Children's Services	4,500	4,326	174
Housing and Environment	4,264	3,252	1,012
Finance & Resources	1,046	1,046	-
Chief Executive	1,914	1,914	-
Central Expenses	4,000	3,370	630
Total	20,344	18,328	2,016

2.13 Housing Revenue Account (HRA)

There is a budget pressure on the HRA as at month 8 of £45k. The HRA budget includes a contribution to the HRA reserve and this deficit would result in a net contribution to reserves of £1.4m. The current budget pressures are:

- Severance costs of £238k have been offset by reduced staffing costs where there are vacant posts. The Council was unable to capitalise the severance costs as the criteria set by government was not met;
- 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;
- Rising energy and insurance costs which may not all be recoverable until the next financial year when the costs can be passed on to the leaseholders;
- The pressures are being offset by additional rental income from properties which are earmarked for decants. This is because the rate of decants is slower than originally budgeted for.

A detailed HRA is provided in appendix C.

2.14 Capital Programme

The Capital Programme budget has been updated to reflect the capital roll forwards approved by Cabinet on 14 June 2011 and all subsequent approvals.

Directorate Summary of Capital Expenditure	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Projected Variance £'000
Adult & Community Services	10,322	13,327	13,326	(1)
Children's Services	56,993	75,203	76,028	825
Housing & Environment	37,472	46,127	45,827	(300)
Finance & Resources	16,868	23,527	22,890	(637)
Total	121,655	158,184	158,071	(113)

In addition to the above projected capital expenditure, the Council has also entered into a Private Finance Initiative (PFI) with Laing O'Rourke for the construction of a new building for Dagenham Park School. The projected capital expenditure on the project for 2011/12 is £13.8m.

However, as part of the PFI contract the construction costs and associated risks are met by Laing O'Rourke and in return the Council pays an agreed annual charge. The PFI is due for completion in April 2012 with a total projected spend of £23.8m.

At the end of November 2011 the overall status of LBBD's Capital Programme is 'Green'. All departments attained a status of 'Green'.

The over spend in Children's Services arises from:

- Devolved Capital Formula £413k – The projected spend assumes additional external funding that will be added to the budget once confirmation is received;
- Eastbury Primary School £340k – Variations to the original specification have caused an over spend. Additionally £200k of budget was transferred to other school projects;
- Beam Primary Expansion £127k – Items such as asbestos checks, professional fees and retention amounts were higher than predicted.

Further explanations for variances are provided in the detailed Capital Programme at appendix D.

Budget adjustment requests are contained within appendix E.

2.15 Transfers From Contingency Requesting Approval

Cabinet are requested to approve an ongoing transfer of £1,406k from Contingency to meet the ongoing budget issues experienced in the Revenues and Benefits divisions.

Cabinet are also requested to approve a one-off transfer of £307k from Contingency to offset the savings shortfall in Housing and Environment. The shortfall has been caused by a delay in implementing revised staff terms and conditions (£190k) and the delay in introducing staff parking permits (£117k). The savings shortfalls are detailed in paragraph 2.8 of this report.

2.16 **Financial Control**

At the end of November all key reconciliations have been prepared and reviewed and no major reconciling items unexplained.

3 **Options Appraisal**

The report provides a summary of the financial position at the relevant year end and as such no other option is applicable for appraisal or review.

4 **Consultation**

The report has been circulated to appropriate Divisional Directors for review and comment. Specific implications are noted in section 7.

Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

5 **Financial Implications**

This report details the financial position of the Council.

6 **Legal Issues**

There are no legal implications for a budget monitoring report.

7 **Other Implications**

- **Risk Management**

The risk to the Council is that if spending is not managed effectively the level of balances will fall below the recommended value of £10.0m 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 over spend 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 management Issues**

Property and asset management issues are covered in the Capital section of the report, paragraph 2.14.

- **Human Resources**

Budget plans for 2011/12 included a number of savings proposals which impacted on staff numbers employed by the Council. These were managed according to the Council's change management policies and procedures. Negotiation of the collective agreement with the Trade Unions in respect of changes to terms and conditions took longer than expected and the savings levels achievable in this year are lower than planned (which is shown in Appendix B).

8 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.

9 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