

CABINET

14 FEBRUARY 2012

Title: Budget Monitoring 2011/12 - April to December 2011	
Report of the Cabinet Member for Finance and Education	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Tracie Evans, Corporate Director of Finance and Resources	
Summary This report provides Cabinet with an update of the Council's revenue and capital position for the nine months to the end of December 2011. 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. At the end of December 2011, total Service expenditure for the full year is projected to be £182.7m against the approved budget of £183.4m; a projected under spend of £0.7m. Pressures arise in Children's Services (Complex Needs and Social Care) and Housing and Environment (reduced income and cost pressures in Environmental divisions). Further explanatory summaries are contained in section 2 of this report. The 2011/12 budget includes a planned contribution of £1.5m to further improve GF balances. The current projected under spend of £0.7m, and the planned contribution to balances of £1.5m, could result in the General Fund balance increasing by £2.2m to £13.0m. The Housing Revenue Account (HRA) is projected to contribute £0.6m more than budgeted to the HRA reserve. The projected contribution to the HRA reserve currently stands at £2.1m. The HRA is a ring fenced account and cannot make contributions to the General Fund. The Capital Programme has been updated to reflect project roll-overs and changes approved at Cabinet and the budget at the end of December stands at £167.3m. 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. This is the final month capital budget adjustments will be requested and once these and other changes since December are taken into account the final budget for 2011/12 will be £163.9m.	

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 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 under spend of £0.7m for the end of the financial year of which:

- £0.4m over spend arises from pressures in Children's Services. An over spend of £1.3m within the Complex Needs and Social Care budget and £0.6m within Management Costs is offset by a projected £1.5m under spend against the Targeted Support and the Commissioning budgets;
- £0.4m over spend arises from cost pressures in Environmental Services;
- (£0.3m) under spend in Finance and Resources due to vacant posts;
- (£0.3m) under spend in the Chief Executive's Directorate due to vacancies;
- (£0.9m) under spend in Central Expenses due to lower interest payments and a one off VAT claim.

The initial net forecast of a £2.2m under spend (£0.7m add £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 £13.0m.

The HRA budget for 2011/12 includes a contribution to the HRA reserve of £1.5m. At the end of December, the HRA is forecasting an under spend of £0.6m.

	Balance at 1 April 2011	Projected Balance at 31 March 2012	Target Balance at 31 March 2012
	£'000	£'000	£'000
General Fund	10,841	13,007	10,000
Housing Revenue Account (including Rent Reserve)	4,448	6,566	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 December 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	65,955	400
Housing and Environment	20,625	21,109	484
Finance and Resources	21,253	20,946	(307)
Chief Executive	931	608	(323)
Central Expenses	10,138	9,218	(920)
Total Service Expenditure	183,382	182,716	(666)
Planned Contribution to Balances			(1,500)
Total Projection at end of December 2011			(2,166)

If the projected under spend is delivered at year end this would result in a large contribution to the General Fund. The current projection would take the General Fund £3.0m over the minimum level recommended by the Corporate Director of Finance and Resources.

The Medium Term Financial Strategy (MTFS) shows significant pressures in 2013/14 and 2014/15.

At year end members may consider creating additional reserves to offset future MTFS pressures and smooth the profile of required savings.

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 9 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 and are expecting to achieve its 2011/12 saving targets.

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	65,955
Projected over/(under)spend			400

Last month the Children's Service was reporting a pressure of £0.5m.

At month 9, the Directorate is reporting a year end pressure of £0.4m, a reduction of £0.1m on the previous month. This reduction is 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 approved savings are achieved. Managers continue to identify actions to further reduce the pressure of £0.4m by year end.

A number of 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 9, total £2.8m of which £0.6m relates to maximising grant flexibilities and £2.2m 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 £74k shortfall is currently projected:

- £35k Court Assessment Team (CHS/SAV/21) – There are pressures reported against this budget and these are being reviewed;
- £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;

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	21,109
Projected over/(under)spend			484

At the end of December 2011 Housing and Environment is forecasting to over spend by £484k which is £232k less than the previous month's over spend position of £716k. This movement is attributable to an approved transfer from contingency of £307k to mitigate the impact of the late implementation of the corporate Terms & Conditions savings.

The main pressures within the Directorate are:

- Refuse income related to trade waste; Staff costs in refuse;
- Rising fuel & energy prices above budgeted inflation;
- Supplies and services in relation to car parks and parking administration;
- 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;
- £686k Parking: Controlled Parking Zones (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;
- £244k Street Scene Parking – Lower than budgeted parking income.

The pressures are being managed by a strong action plan including limiting spend on non-essential items and by offset of the £750k 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	21,253	20,946
Projected over/(under)spend			(307)

The Finance and Resources Directorate is projecting a £307k under spend. The change from the previously reported over spend is due to a release from contingency to offset the £1.4m pressure within the Revenues & Benefits service that existed at the point of transfer.

There have also been under spends across the Directorate 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	608
Projected over/(under)spend			(323)

The Chief Executive Directorate is currently reflecting a £323k under spend mainly due to part year vacancies held within the Directorate. This position is a reduction from last month's projection due to some changes in Human Resources.

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)	10,138	9,218
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	4,620	-
Children's Services	4,500	4,426	74
Housing and Environment	4,264	3,282	982
Finance & Resources	1,046	1,046	-
Chief Executive	1,914	1,914	-
Central Expenses	4,000	3,370	630
Total	20,344	18,658	1,686

2.13 Housing Revenue Account (HRA)

There is an under spend projected on the HRA as at month 9 of £649k. The HRA budget includes a contribution to the HRA reserve of £1.5m and this surplus would result in a net contribution to reserves of £2.1m. 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 in the HRA as the criteria set by government was not met;
- Rising 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	13,315	13,155	(160)
Children's Services	56,993	77,237	77,321	84
Housing & Environment	37,472	53,059	52,194	(865)
Finance & Resources	16,868	23,679	23,456	(223)
Total	121,655	167,290	166,126	(1,164)

The budget at the end of December is £167.3m. This is the final month capital budget adjustments will be requested and once these and other changes since December are taken into account the final budget for 2011/12 will be £163.9m.

In addition to the above projected capital expenditure, the Council has also entered into a Private Finance Initiative (PFI) with Thames Partnership for Learning 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 Thames Partnership for Learning and in return the Council pays an agreed annual charge. The PFI is due for completion in April 2013 with a total projected spend of £23.8m.

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

The under spend in Adults & Community Services arises from Goresbrook Leisure Centre (£160k). As the centre is due to be closed the level of works has been scaled down.

The under spend in Housing & Environment arises from:

- A £200k net under spend on DH works Framework contracts (£225k under), Kitchen & Bathroom Replacement Project (£325k over) and Council Housing - New Builds (300k under). These projects are within the HRA set of works and costs differed from estimates. The net under spend will be reinvested in the HRA;
- Council Housing & Thames (£344k under spend) – The remaining budget is required for retention payments and will be utilised in 2012/13. A reprofile request is contained in appendix E;
- SNAPS (£156k under spend) – The project has completed and the remaining budget is to be reallocated.

The under spend in Finance & Resources arises from:

- Automatic Meter Reading Equipment (£344k under spend) – Expenditure is occurring slower than estimated and the budget will be utilised in 2012/13;
- Energy Efficiency Programme (£130k over spend) – The projected overspend is to be addressed by repayment of grants to the Council (SALIX funds);
- Boroughwide Estate Renewal Gascoigne (£124k under spend) – The schedule of works is being reviewed to identify if the budget will be required in 2012/13.

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

Budget adjustment requests are contained within appendix E.

2.15 Financial Control

At the end of December 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** (Sharon Roots)
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** (Paul Hodson)
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** (Sue Lees)
Property and asset management issues are covered in the Capital section of the report, paragraph 2.14.
- **Human Resources** (Martin Rayson)
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