

## CABINET

20 MARCH 2012

<b>Title:</b> Budget Monitoring 2011/12 - April to January 2012	
<b>Report of the Cabinet Member for Finance and Education</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Divisional Director:</b> Jonathan Bunt, Divisional Director of Finance	
<b>Accountable Director:</b> Tracie Evans, Corporate Director of Finance and Resources	
<b>Summary:</b> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the ten months to the end of January 2012 projected to the year end.</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 January 2012, total Service expenditure for the full year is projected to be £182.1m against the approved budget of £183.4m; a projected under spend of £1.3m. 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.</p> <p>The 2011/12 budget includes a planned contribution of £1.5m to further improve GF balances. The current projected under spend of £1.3m, and the planned contribution to balances of £1.5m, could result in the General Fund balance increasing by £2.8m to £13.6m.</p> <p>The Housing Revenue Account (HRA) is projected to contribute £0.7m more than budgeted to the HRA reserve. The projected contribution to the HRA reserve currently stands at £2.2m. 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 and the budget at the end of January stands at £164.1m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</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 revenue budget adjustment as set out in paragraph 2.15 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 £1.3m for the end of the financial year of which:

- £0.2m over spend arises from pressures in Children's Services with the main pressure existing within the Complex Needs and Social Care budget;
- £0.4m over spend arises from cost pressures in Environmental Services;
- (£0.5m) under spend in Finance and Resources due to vacant posts;
- (£0.5m) 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 £2.8m under spend (£1.3m 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 £13.6m.

The HRA budget for 2011/12 includes a contribution to the HRA reserve of £1.5m. At the end of January, the HRA is forecasting an under spend of £0.7m.

	<b>Balance at 1 April 2011</b>	<b>Projected Balance at 31 March 2012</b>	<b>Target Balance at 31 March 2012</b>
	£'000	£'000	£'000
General Fund	10,841	13,623	10,000
Housing Revenue Account (including Rent Reserve)	4,448	6,610	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.

<b>Council Summary</b>	<b>Net Budget</b>	<b>Full year projection at January 2012</b>	<b>Over/(under) Budget Projection</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Directorate Expenditure</u>			
Adult and Community Services	63,846	63,846	-
Children's Services	65,555	65,755	200
Housing and Environment	22,113	22,532	419
Finance and Resources	23,186	22,686	(500)
Chief Executive	931	450	(481)
Central Expenses	7,751	6,831	(920)
<b>Total Service Expenditure</b>	<b>183,382</b>	<b>182,100</b>	<b>(1,282)</b>
Planned Contribution to Balances			(1,500)
<b>Total Projection at end of January 2012</b>			<b>(2,782)</b>

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 £3.6m over the minimum level recommended by the Corporate Director of Finance and Resources.

The Medium Term Financial Strategy (MTFS) approved by assembly on 22 February 2012 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

<b>Directorate Summary</b>	<b>2010/11 Outturn</b>	<b>2011/12 Budget</b>	<b>2011/12 Projection</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net Expenditure	69,951	<b>63,846</b>	<b>63,846</b>
Projected over/(under)spend			-

The Adult and Community Service (ACS) budget position at month 10 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

<b>Directorate Summary</b>	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	61,913	<b>65,555</b>	<b>65,755</b>
Projected over/(under)spend			<b>200</b>

Last month the Children's Service was reporting a pressure of £0.4m.

At month 10, the Directorate is reporting a year end pressure of £0.2m, a reduction of £0.2m on the previous month. This reduction is a result of management actions to hold back all non-essential spend and the reduction of expenditure in the current financial year. Managers continue to identify actions to further reduce the pressure of £0.2m 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 10, total £3.1m of which £0.5m relates to maximising grant flexibilities and £2.6m 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)

The DSG is a ring fenced grant to support the education of school aged pupils within the borough. The grant is allocated between the Schools and Centrally Retained budget in agreement with the Schools Forum. In 2011/12 DSG of £187.9m was received with £19.5m being retained centrally.

## 2.8 Housing and Environment

<b>Directorate Summary</b>	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	23,961	<b>22,113</b>	<b>22,532</b>
Projected over/(under)spend			<b>419</b>

At the end of January 2012 Housing and Environment is forecasting to over spend by £419k which is £65k less than the previous month's over spend position of £484k.

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 £3.6m will be delivered this year leaving a shortfall of £0.7m. This is due to:

- £54k Road Safety (CUS/SAV/9) – The service has borne the costs of 2 FTEs for 2 months until the process was completed in January 2012;
- £686k Parking: Controlled Parking Zones (CPZ) (CUS/SAV/6) – Pressures in achieving income targets as outlined in the proposal.

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 of refuse freighters.

## 2.9 Finance and Resources

<b>Directorate Summary</b>	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	14,662	<b>23,186</b>	<b>22,686</b>
Projected over/(under)spend			<b>(500)</b>

The Finance and Resources Directorate is projecting a £500k under spend.

There have 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

<b>Directorate Summary</b>	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	991	<b>931</b>	<b>450</b>
Projected over/(under)spend			<b>(481)</b>

The Chief Executive Directorate is currently reflecting a £481k under spend mainly due to part year vacancies held within the Directorate.

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

## 2.11 Central Expenses

<b>Directorate Summary</b>	2010/11 Outturn	2011/12 Budget	2011/12 Projection
	£'000	£'000	£'000
Net Expenditure	(19,482)	7,751	<b>6,831</b>
Projected over/(under)spend			<b>(920)</b>

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 on sports tuition, parking charges and cultural admission.

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.

<b>Directorate Summary of Savings Targets</b>	<b>Target £'000</b>	<b>Projection £'000</b>	<b>Shortfall £'000</b>
Adult and Community Services	4,620	4,620	-
Children's Services	4,500	4,426	<b>74</b>
Housing and Environment	4,264	3,524	<b>740</b>
Finance & Resources	1,046	1,046	-
Chief Executive	1,914	1,914	-
Central Expenses	4,000	3,370	<b>630</b>
<b>Total</b>	<b>20,344</b>	<b>18,900</b>	<b>1,444</b>

### 2.13 Housing Revenue Account (HRA)

There is an under spend projected on the HRA as at month 10 of £693k. 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 £2.2m. 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.

<b>Directorate Summary of Capital Expenditure</b>	<b>Original Budget £'000</b>	<b>Revised Budget £'000</b>	<b>Projected Outturn £'000</b>	<b>Projected Variance £'000</b>
Adult & Community Services	10,322	13,154	13,190	36
Children's Services	56,993	77,406	75,429	(1,977)
Housing & Environment	37,472	52,786	53,049	263
Finance & Resources	16,868	20,762	17,171	(3,591)
<b>Total</b>	<b>121,655</b>	<b>164,108</b>	<b>158,839</b>	<b>(5,269)</b>

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 March 2012 with a total projected spend of £23.8m.



At the end of January 2012 the overall status of LBBD's Capital Programme is 'Green'. All departments attained a status of 'Green'.

No further capital budget adjustments will take place this year. Under or over spends at year end will be requested for roll forward as part of the 2011/12 outturn report.

The over spend in Adults & Community Services mainly arises from:

- Ripple Hall (£195k under spend) – Through robust project management the service was able to achieve an under spend on this project;
- Abbey Leisure Centre (£325k over spend) – The project is proceeding faster than expected and funding earmarked for 2012/13 will be used to fund the over spend.

The under spend in Children's Services mainly arises from:

- Eastbury (£177k under spend) and Barking Riverside (£947k under spend) – Projects are complete but a retention payment to the contractor is being held back until 2012/13, which is standard practice;
- Thames View Juniors (£400k under spend) – The project was completed under budget and the under spend will be utilised on other school projects;
- William Bellamy (£264k under spend) – Design and feasibility works have taken longer than anticipated and a request to roll forward the under spend will be submitted;
- Dagenham Village (£190k under spend) – Spend is dependent on when the diocese submit their invoices. A request to roll forward the under spend will be submitted.

The over spend in Housing & Environment mainly arises from:

- Lift Replacement (£112k over spend) – Professional fees such as design were higher than anticipated. Budgets from other projects will be used to cover the over spend;
- Central Heating Installation (£300k over spend) and Kitchen & Bathroom Replacement (£325k over spend) – Expenditure is higher than originally anticipated when the budgets were apportioned. The over spends will be funded from other projects;
- Council Housing New Builds (£300k under spend) – A retention payment to the contractor is being held back until 2012/13, which is standard practice;
- SNAPS (£156k under spend) – The project has completed and the remaining budget will be utilised on highways projects.

The under spend in Finance & Resources mainly arises from:

- All Borough Wide Estate Renewal Projects (£3,197k under spend) – Spend profile has differed from expectation and a request to roll forward the under spend will be submitted;
- Barking Station Forecourt (£134k under spend) – The project has been delayed due to adverse weather conditions. A request to roll forward the under spend will be submitted;

- Improvements to the Mall (£183k under spend) – The project has been delayed due to agreeing aspects of the design. A request to roll forward the under spend will be submitted;
- New Market Square (£112k under spend) – Expenditure has not occurred as quickly as anticipated. A request to roll forward the under spend will be submitted.

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

## 2.15 Revenue Budget Adjustment Requesting Approval

Cabinet are requested to approve the transfer of £235k from Housing General Fund, within the Housing & Environment Division to Revenues & Benefits in the Finance & Resources Division.

The transfer relates to amounts that should have transferred to Revenues and Benefits to offset the budget gap which arose due to changes in Housing Benefit Subsidy.

## 2.16 Financial Control

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

## 3 Options Appraisal

- 3.1 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

- 4.1 The report has been circulated to appropriate Divisional Directors for review and comment. Specific implications are noted in section 7.
- 4.2 Individual Directorate elements have been subject to scrutiny and discussion at their respective Directorate Management Team meetings.

## 5 Financial Implications

- 5.1 This report details the financial position of the Council.

## 6 Legal Issues

- 6.1 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.

- **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