CABINET

19 March 2013

Title: Budget Monitoring 2012/13 - April 2012 to January 2013	
Report of the Cabinet Member for Finance	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
Report Author: Steve Pearson, Group Accountant, Corporate Finance	**Contact Details:** Tel: 020 8227 5215 E-mail: steve.pearson@lbbd.gov.uk
Accountable Divisional Director: Jonathan Bunt, Divisional Director of Finance	
Accountable Director: Graham Farrant, Chief Executive	

Summary:

This report provides Cabinet with an update of the Council's revenue and capital position for the ten months to the end of January 2013 projected to the year end.

The Council began the current financial year in a better financial position than the previous year with a General Fund (GF) balance of £14.3m.

At the end of January 2013, total service expenditure for the full year is projected to be £174.7m against the approved budget of £177.4m, a projected underspend of £2.7m. Explanatory summaries are contained in section 2 of this report.

The current projected underspend of £2.7m would result in the General Fund balance increasing to £17.0m.

The Housing Revenue Account (HRA) is projected to underspend by £200k, increasing the HRA reserve to £8.5m. 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 January stands at £110.9m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.

Recommendation(s)

The Cabinet is recommended to:

(i) Note the projected outturn position for 2012/13 of the Council's revenue budget at 31 January 2012, as detailed in paragraphs 2.3 to 2.11 and Appendix A of the report;

(ii) Note the progress against the 2012/13 savings targets at 31 January 2012, as detailed in paragraph 2.12 and Appendix B of the report;

(iii) Note the position for the HRA at 31 January 2012, as detailed in paragraph 2.13 and Appendix C of the report;

(iv) Note the projected outturn position for 2012/13 of the Council's capital budget at 31 January 2012, as detailed in paragraph 2.14 and Appendices D and 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 Final Outturn report to Cabinet on 26 June 2012 reported that, as at 31 March 2012, general fund balances stood at £14.3m; an increase of £3.5m on the position twelve months earlier.

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 2012/13 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 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.

2 Current Overall Position

2.1 The current Directorate revenue projections indicate an underspend of £2.7m for the end of the financial year, made up as follows:

- £0.2m over spend in Housing & Environment, the main pressure being homeless placements
- (£0.1m) underspend in Finance and Resources with pressures in the Revenues & Benefits court costs income budgets, mitigated by an expenditure freeze in other areas;
- (£0.8m) underspend in the Chief Executive Directorate from vacancies;
- (£2.0m) underspend in Central Expenses against the interest budgets.

The initial forecast of a £2.7m underspend 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 and ensure a balanced position by year end to maintain the available level of balances.

2.2 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 2012 was £14.3m and the current projected balance for the end of the financial year is £17.0m.

At the end of January 2012, the HRA is forecasting to underspend by £200k and increase the HRA reserve to £8.5m.

	Balance at 1 April 2012	**Projected Balance at 31 March 2013**	**Target Balance at 31 March 2013**
	£'000	£'000	£'000
General Fund	14,346	17,019	10,000
Housing Revenue Account (including Rent Reserve)	8,269	8,469	8,269

2.3 The current full year projection to 31 March 2013 across the Council for the General Fund is shown in the table below.

Council Summary	**Net Budget**	**Full year projection at Jan 2013**	**Over/(under) Budget Projection**
	£'000	**£'000**	**£'000**
Directorate Expenditure			
Adult and Community Services	62,989	62,989	**-**
Children's Services	70,164	70,164	**-**
Housing and Environment	21,866	22,016	**150**
Finance and Resources	21,709	21,609	**(100)**
Chief Executive	802	41	**(761)**
Central Expenses	(151)	(2,113)	**(1,962)**
Total Service Expenditure	**177,379**	**174,706**	**(2,673)**

The current projection would increase the General Fund to £17.0m, which is over the minimum level recommended by the Corporate Director of Finance and Resources.

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	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	64,366	**62,989**	**62,989**
Projected over/(under)spend			**-**

The Adult and Community Services forecast out-turn position at the end of month 10 of the 2012/13 financial year is to break-even.

A challenging savings target of £3.392m (alongside a further £370k of Senior Manager & Policy Team savings) is built into the 2012/13 budget. There are pressures on some of the savings targets, but overall these will be managed to ensure that the savings target is delivered.

2.6 **Children's Services**

Directorate Summary	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	69,729	**70,164**	**70,164**
Projected over/(under)spend			**-**

At period 10 the Service is reporting a year end balanced position. The service pressures have decreased by £495k from the previous month due to brought forward savings in Targeted Support Service. Pressures continue in Complex Needs and Social Care relating to assessment and care management, Section 17 and No Recourse to Public Funds support and SEN transport. Management actions are in place to hold back all non-essential spend in light of budgetary pressures. The service had previously been including grant income of £337k from the Social Worker Improvement Fund (DfE) in its forecast. This funding has not been confirmed and to be prudent this income has now been removed from the monitoring. The loss of this income will be managed within the overall budget for 2012-13, but the service will need to review how the position is to be managed for 2013-14.

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. The indicative 2012/13 DSG allocation is £196.1m with £20.4m being retained centrally.

2.8 **Housing and Environment**

Directorate Summary	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	23,579	**21,866**	**22,016**
Projected over/(under)spend			**150**

The Housing and Environment General Fund budget is currently forecast to overspend by £150k as at period 10, which is an adverse movement of £150k compared to that reported in period 9. This forecast reflects the assessed cumulative impact of significant pressures within these budgets.

The main pressure is in the Housing General Fund, particularly in relation to the high numbers of homeless placements in Bed and Breakfast accommodation. The

Council has a statutory duty to provide accommodation in these cases. The accommodation is a high cost placement to the Council as a result of the cap applied, which restricts the housing benefit subsidy the Council can receive. This leaves a large element of rent payable by the Council as the tenant is unable to afford this difference.

The risks to the delivery of this budget are often outside the control of the council. These risks include: the demand for homeless placements; the prevailing market conditions within the private sector rented market; the availability of suitable private rented units in neighbouring boroughs; and the availability of decanted council properties for use as temporary accommodation.

The service is focused on delivering actions to mitigate and resolve the budget shortfall this situation creates. These actions include making the Council more competitive in the private sector market to improve the supply of properties; and greater use of temporary HRA (Housing Revenue Account) void properties.

The projected variance of the Housing General Fund is highly dependent upon the successful delivery of these actions, to prevent further adverse movements.

The department started the year with a savings target of £2.3m. A high proportion of the savings will be fully delivered but there is currently an overall pressure of around £350k. This is mainly due to significant pressures facing the Housing General Fund as mentioned above, which in turn affects the deliverability of the £350k saving for CUS/SAV/10 (see below).

2.9 **Finance and Resources**

Directorate Summary	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	24,510	**21,709**	**21,609**
Projected over/(under)spend			**(100)**

The Finance & Resources department is currently forecast to underspend by approximately £100k. A pressure still exists due to the under-recovery of court cost income in Revenues & Benefits of approximately £648k and this is being mitigated by a freeze on expenditure within the department.

For 2012/13 the department had a total savings target of £2.591m and all of the individual savings are forecast to be delivered.

In previous months the Revenues & Benefits Local authority error rate has been highlighted as a risk because if the higher threshold limit was breached there would have been a significant loss of subsidy to the Council and depending on the level of the breach this loss could range from around £450k to £860k.

This is being closely monitored and as at the end of January the local authority error rate has been reported as 0.39%. This is a further improvement from last month's position of 0.44% and ensures headroom below the lower threshold limit of 0.48%. At this stage, the risk to not maintaining a position below the threshold limit at year end is considered low.

2.10 Chief Executive

Directorate Summary	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	(216)	**802**	**41**
Projected over/(under)spend			**(761)**

The services within the Chief Executive department are currently forecast to underspend by £761k mainly as a result of vacancies held within the services and prudent use of other budgets including supplies & services and third party payments.

For 2012/13, the department had a total savings target of £2.3m and there is currently a projected shortfall in delivery of £136k in respect of the HR targets but this is being managed by reductions in other expenditure.

2.11 Central Expenses

Directorate Summary	2011/12 Outturn	2012/13 Budget	2012/13 Projection
	£'000	£'000	£'000
Net Expenditure	(1,941)	(151)	**(2,113)**
Projected over/(under)spend			**(1,962)**

Due to the management of our cash balances a net underspend of £1,962k is projected against the budgets for interest and a lower than anticipated call on corporate contingency.

2.12 In Year Savings Targets

The delivery of the 2012/13 budget is dependent on meeting a savings target of £19.0m. Directorate Management Teams are monitoring their targets and providing a monthly update of progress which is summarised in the table below. A detailed breakdown of savings and explanations for variances is provided in appendix B.

Directorate Summary of Savings Targets	Target £'000	Projection £'000	Shortfall £'000
Adult and Community Services	3,392	3,392	**-**
Children's Services	3,410	3,410	**-**
Housing and Environment	2,331	1,981	**350**
Finance & Resources	2,591	2,591	**-**
Chief Executive	2,300	2,164	**136**
Central Expenses	5,000	5,000	**-**
Total	**19,024**	**18,375**	**486**

2.13 Housing Revenue Account (HRA)

The HRA is currently forecast to produce a surplus of £200k in 2012/13. There are some areas where budget pressures are being mitigated by additional income generated, or maximising interest income.

Income
There is a favourable net rental surplus of £285k being forecast, mainly arising from the short term renting of decanted properties for temporary accommodation that would have otherwise remained void pending demolition/refurbishment. In addition, there will be income from higher than anticipated water charges of £341k.

The HRA is also benefitting from an estimated additional £474k of interest on cash balances. This has arisen as a prompt and conscious response to elements of the capital schemes needing longer than was originally anticipated. This unanticipated income has helped to offset a £166k pressure due to delays in implementation of the Garage strategy.

Adding all items together, the net favourable variance in the income budgets is £934k.

Expenditure
There are one-off costs of £450k in relation to additional work required to implement the new Repairs & Maintenance service contract. This will become an in-house operation and will lead to annualised savings in future greater than any implementation costs. These costs are currently being contained within the overall R&M budget, which is only forecasting a pressure of £130k (net of works that are capitalised).

There is a further nominal pressure in Supervision & Management relating to energy costs of £200k, which will be carried forward to next year, and water charges of £341k which will be recovered from the tenants and leaseholders this year, as shown above.

Other pressures are:

- a one- off charge from the Housing Strategy team for the additional work involved in the implementation of the new HRA Business Plan and asset management strategy of £200k;
- staffing spend above budget of £420k; and
- increased transport costs of £170k.

Items offsetting these pressures are:

Complementary to the interest earned on improved cash flow due to the extended capital programme, interest of £324k on predicted borrowing in 2012/13 of £8.5m for the Decent Homes capital programme will not now be paid. In addition a reduced estimate for in-year debt write offs by £109k and a council tax voids by £94k, will reduce the total pressure on HRA expenditure. Adding all these items together, the net unfavourable variance in the spend budgets is £734k.

HRA Balance
When put together with the favourable variance from the income budgets, the overall impact is that the net spend is a surplus of £200k. The HRA maintains revenue reserves balance of £8.3m. Currently it is anticipated that this £200k surplus would be used to increase the balance to £8.5m by the end of 2012/13. There is also a budgeted contribution to capital resources of £36.688m, and this is forecast to be achieved.

2.14 **Capital Programme**

The following budgets reflect the revised capital programme submitted to Cabinet in February within the Budget Framework report. The programme in 2012/13 is lower than previously reported as budgets have been re-profiled into the next financial year.

The table below identifies that this lower target will not be achieved by at least £20m. There are often good reasons for delays, and slippage into future years means that the Council will not incur the costs of capital in 2012/13 as the funding is not required. However, the reason for the capital programme is deliver assets that are needed and delays in delivery mean the benefits of that spend are also delayed. In view of this, added focus will be given to capital in coming months to improve both the accuracy of programming and ensure delivery to deadline.

Directorate Summary of Capital Expenditure	Budget £'000	Actual Year to Date £'000	Projected Outturn £'000	Projected Variance £'000
Adult & Community Services	6,205	3,427	4,505	(1,700)
Children's Services	37,507	25,354	31,578	(5,929)
Housing & Environ (non HRA)	8,136	6,323	7,802	(334)
HRA	43,350	18,951	35,754	(7,596)
Finance & Resources	15,739	5,324	10,979	(4,760)
Total	**110,937**	**59,379**	**90,618**	**(20,319)**

A detailed Capital Programme forecast is provided at Appendix D.

Variances by area are largely due to slippage and are summarised below:

Adult & Community Services

- Community Services, Heritage & Libraries – (£410k) underspend
- Leisure Services – (£1,284k) underspend

Children's Services

- Schools devolved capital – (£1,035k) underspend.
- Schools expansion / New school places (£4,894k) underspend
- The £27m underspend reported last month, due to slippage on the Schools Places programme, has now been re-profiled into 2013/14.

Housing & Environment

- Housing Revenue Account – (£7.3m) underspend relating to slippage on various schemes. Larger areas are:
  - Leaseholder buy-backs (£1.0m)
  - Estate renewal demolition (£1.1)

- Repairs and renewals contract implementation (£0.6m)
    - External enveloping and renewal (£0.8m)
    - New Council House building Phase 3 (£1.0m)
    - Abbey Rd CIQ (£0.5m)
- Environment – (£334k) underspend mainly relating to slippage on street lighting works and grant-funded disabled facilities works.

Finance & Resources

- Asset Strategy – (£190k) underspend relating to slippage on various schemes.
- ICT – (£2,961k) mainly due to slippage on Oracle R12 project and modernisation and improvement works
- Regeneration – (£1,609k) underspend relating to slippage on various schemes.

Explanations for project variances over £100k are provided in Appendix E.

Capital expenditure to the end of January totals £59.4m, representing only 54% of the total forecast after ten months of the financial year and well below budgeted levels. However, project sponsors are forecasting that accrued expenditure will increase substantially to approximately £90m in the last two months of the financial year.

2.15 **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.

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 Local authorities are required by law to set a balanced budget for each financial year. During the year there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

Background Papers Used in the Preparation of the Report

- Final Revenue and Capital Outturn 2011/12; Cabinet 26 June 2012;
- Budget Framework 2012/13; Cabinet 14 February 2012.

Appendices

A – General Fund expenditure by Directorate
B – Savings Targets by Directorate
C – Housing Revenue Account Expenditure
D – Capital Programme
E – Explanation for Capital Variances