

## CABINET

25 June 2013

<b>Title:</b> Revenue and Capital Final Outturn 2012/13	
<b>Report of the Cabinet Member for Finance</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> Graham Farrant, Chief Executive	
<b>Summary:</b> <p>The Council's revenue outturn for the financial year 2012/13 is a net spend below budget of £3.1m against a net revenue budget of £177.4m (1.7%).</p> <p>The 2012/13 net spend below budget of £3.1m has resulted in the General Fund balance increasing from £14.3m to just under £17.5m.</p> <p>This provides an improvement in the Council's financial position beyond the £15m General Fund balance target, identified in the 2013/14 Budget report to Assembly in February 2013 by the Divisional Director of Finance.</p> <p>The revenue outturn figures have been calculated after taking into account roll forward requests that were included in the Provisional Revenue and Capital Outturn report and agreed by Cabinet at its meeting on 21 May 2013.</p> <p>The Housing Revenue Account (HRA) generated a surplus of £0.2m which has been transferred to HRA balances (which are ring-fenced). The surplus increases the HRA reserve position from £8.3m to £8.5m at 31 March 2013.</p> <p>Capital spend of £86.3m was incurred in 2012/13 against the revised capital budget of £110.9m; this is an increase in expenditure of £2m compared to the figure included in the provisional outturn report. Revised capital expenditure compared to budget is shown in Appendix C to the report.</p>	

## **Recommendation(s)**

The Cabinet is recommended to:

- (i) Note the final outturn position for 2012/13 of the Council's revenue budget as detailed in paragraphs 2.3 to 2.10 of the report and Appendix A;
- (ii) Note the final outturn position for the HRA as detailed in paragraph 2.7 of the report and Appendix B;
- (iii) Note the final outturn position for 2012/13 of the Council's capital budget as detailed in paragraph 2.12 of the report;
- (iv) Agree the revised capital budget roll forward requests detailed in Appendix C to the report; and
- (v) Note the increased contribution to capital expenditure of £0.6m in the agreed Central Expenses figure as detailed in paragraph 2.10 of the report.

## **Reason(s)**

As a matter of good financial practice, the Cabinet should be informed of the final outturn and performance of the Council's Revenue and Capital resources. Knowledge of the variances from planned budgets will assist members in making sound future decisions.

## **1 Introduction and Background**

- 1.1 This report provides a summary of the Council's General Fund, HRA revenue and capital final outturn positions for 2012/13. Good financial management has meant that the General Fund balance has increased by £3.1m to just under £17.5m. This position includes the achievement of £18.5m of in year savings targets that represented a significant challenge for the Council.
- 1.2 It is important that the Council regularly monitors its revenue and capital budgets to ensure good financial management. This is achieved by monitoring the Council's financial results on a monthly basis through briefings to the Cabinet Member for Finance, Revenues and Benefits and monthly monitoring 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.
- 1.3 The Provisional Revenue and Capital Outturn report for 2012/13 was presented to Cabinet on 21 May 2013. The revenue outturn for service expenditure indicated a £3.1m underspend, to be added to General Fund balances, giving a final balance of just under £17.5m as at 31 March 2013. This position has remained unchanged.
- 1.4 The position for capital expenditure was spend of £84.3m against a revised budget of £110.9m. Further creditors have been established since the provisional outturn report was written and final capital spend was £86.3m

## 2 Overall Outturn Position

- 2.1 The Directorate revenue outturn is a net spend below budget of £3.1m at the end of the financial year 2012/13. This has resulted in the Council's General Fund (GF) balance increasing beyond the target of £15.0m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances
- 2.2 In the report to Assembly regarding the setting of the 2013/14 annual budget and Council Tax, the Chief Finance Officer, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003, set a target GF reserves level of £15.0m. The GF balance at 31 March 2012 was £14.3m and the corresponding balance as at 31 March 2013 is just under £17.5m.
- 2.3 The outturn position for 2012/13 across the Council for the General Fund is shown in the table below.

<b>Council Summary</b>	<b>Net Budget £'000</b>	<b>Outturn £'000</b>	<b>Over/(under) Budget £'000</b>
<u>Directorate Expenditure</u>			
Adult and Community Services	60,710	60,701	(9)
Children's Services	69,435	69,448	13
Housing and Environment	24,076	24,040	(36)
Finance and Resources	19,336	19,140	(196)
Chief Executive	353	(81)	(434)
Central Expenses	3,469	1,021	(2,448)
<b>Total Service Expenditure</b>	<b>177,379</b>	<b>174,269</b>	<b>(3,110)</b>

The reported outturn is shown after taking into account roll forwards approved in the Provisional Outturn report of 21 May 2013. Detailed outturn by Service is shown in Appendix A.

Whilst the Council's total net service budget is unchanged since the provisional outturn report, there have been changes between services and the central expenses budget to reflect directorate contributions to reserves. These changes do not impact on the Services' controllable budgets.

At the 31 March 2013, the HRA had a net spend below budget of £0.2m resulting in an increased HRA reserve of £8.5m. The table below shows the balances on the General Fund and the HRA at year end compared to target:

	<b>Balance at 1 April 2012 £'000</b>	<b>Balance at 31 March 2013 £'000</b>	<b>Target Balance at 31 March 2013 £'000</b>
General Fund	14,346	17,456	15,000
Housing Revenue Account	8,269	8,461	8,269

### 2.3 Directorate Performance Summaries

The Directorates' outturn performances are outlined in the paragraphs below.

### 2.4 Adult and Community Services

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Outturn
	£'000	£'000	£'000
Net Expenditure	64,366	<b>60,710</b>	<b>60,701</b>
Over/(under)spend			<b>(9)</b>

The Adult and Community Services directorate has come in slightly under budget at year-end.

This has been achieved through robust financial monitoring and successful management of a number of key challenges during the financial year. This includes delivering a challenging savings target of £3,392k (alongside a further £370k of Senior Manager & Policy Team savings) built into the 2012/13 budget. The directorate successfully secured social care grant funding, re-ablement and winter pressures funding following protracted negotiations with the outgoing PCT. Culture and Sport had a busy and challenging year, delivering a range of Olympic events and activities as well as maintaining business as usual. The service also successfully levered in £2,235k of external funding in 2012/13.

### 2.5 Children's Services

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Outturn
	£'000	£'000	£'000
Net Expenditure	69,729	<b>69,435</b>	<b>69,448</b>
Over/(under)spend			<b>13</b>

The Children's Service has delivered a broadly balanced budget for 2012/13, overspending by £13k (0.02%). However it is important to note that this balanced position is masking increasing pressure within the Complex Needs and Social Care divisions.

Service activity is being tracked monthly and shows both increased demand and associated risk. Referral activity has increased consistently since the end of 2012 and shows no signs of reducing, which suggests more of a trend rather than a one-off spike in demand. There were 1,144 core assessments completed in 2012/13 which was over twice as many as 2011/12. Section 47 child protection investigations increased by 37 %, from 514 in 2011/12 to 706 in 2012/13.

There was some encouraging news however. At the end of 2012/13 the number of children in care was 421 compared to 427 in March 2012. There are a number of factors that have contributed to the fall, but in particular the 'edge of care' initiatives the Service has developed through their Access to Resources team.

## 2.6 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 2012/13 DSG of £195.1m was received with £20.4m being retained centrally.

## 2.7 Housing and Environment

<b>Directorate Summary</b>	<b>2011/12 Outturn</b>	<b>2012/13 Budget</b>	<b>2012/13 Outturn</b>
	£'000	£'000	£'000
General Fund - net expenditure	23,579	<b>24,076</b>	<b>24,040</b>
Over/(under)spend			<b>(36)</b>
Housing Revenue Account (HRA) - net expenditure	(2,351)	0	<b>(192)</b>

The Housing and Environment General Fund budget final outturn is an overall net spend below budget of £36k. There was net spend over budget of £250k in the Housing General Fund (GF) which was more than offset by a net spend under budget of £286k within Environmental Services. However, there still remain significant long term pressures within the Directorate's budget which need to be managed.

In Housing GF the main pressure is in relation to the high numbers of homeless placements in temporary accommodation, specifically within Bed and Breakfast. These placements are a significant cost to the Council, mainly due to the Housing Benefit cap on this type of accommodation. Other factors outside the Service's control have aggravated this position. Examples of these factors are a higher than anticipated increase in demand for homeless placements, and the market conditions prevailing within the private sector rented market.

This pressure has been mitigated in-year by greater use of HRA temporarily void (decant) properties and by taking steps to make the Council more competitive in the private sector market. Due to the nature of the risk, the position continues to be monitored closely to ensure the level of risk is understood and mitigated going forward.

In Environmental Services a pressure of £2m in year has been managed through a combination of many factors: a freeze on non-urgent spend such as road repairs, keeping posts vacant, the strong performance of the street trading account, one-off income generated through facilitating TFL work in Renwick Road, and successfully achieving more grants towards parks events. The Service has also developed action plans to mitigate some pressures permanently and is making progress in implementing them.

The position includes an approved transfer to earmarked reserves of £70k for the purpose of using DEFRA funding received in year for the preparation of a Flood Risk Strategy.

The Directorate delivered £1,981k of its 2012/13 saving target of £2,331k. This is mainly due to significant pressures facing the Housing GF as mentioned above, in terms of homeless placements, which affected the deliverability of the £350k saving for converting private sector lease properties from old portfolio to the new contract at lower rates. Housing has sometimes struggled to compete with neighbouring Councils to secure PSL (private sector lease) accommodation as those authorities had the strategic advantage of being able to offer higher financial incentives. The Service sought to address this during the year and so will be looking to gain back some of the advantage going forward. The £250k adverse variance across all Housing GF services includes this £350k pressure on homelessness.

### **Housing Revenue Account (HRA)**

2012/13 has been a transitional year for the Housing Revenue Account, being the first with the new self-financing regime. A lot of preparatory work has been done towards the implementation of the capital investment programme as well as bringing in-house the repairs function. It has also implanted the localities structure which has allowed more streamlined budgeting.

The HRA has maintained a strong cash balance which it has partly built up by re-using decanted void properties to ease temporary accommodation pressures within the General Fund. Overall the HRA has increased its balances by £192k.

The HRA final outturn is a surplus of £192k in 2012/13, as reported in the provisional outturn report. There are some areas where budget pressures are being mitigated by additional income generated, or maximising interest income.

#### ***Income***

There was a favourable net rental surplus of £750k, mainly arising from the short term renting of decanted properties for temporary accommodation. In addition, there was income from higher than anticipated water charges of around £200k, additional Leasehold income of £150k due to higher collection rates by Elevate. There was also £64k primarily from additional right to buy income.

The HRA also benefitted from an additional £548k of interest on cash balances. This unanticipated income helped to offset a £130k pressure due to delays in implementation of the Garage strategy, and pressure of £350k in respect of service charges not charged to decant properties.

Adding all items together, the net favourable variance in the income budgets was £1.232m.

#### ***Expenditure***

There was a net pressure of £538k in relation to additional work required to implement the new Repairs & Maintenance (R&M) 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 managed within the overall R&M budget within the HRA.

Other pressures were:

- 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 £294k; and
- Increased transport costs of £170k.

Items off-setting these pressures were:

- complementary to the interest earned on improved cash flow due to the extended capital programme, interest of £391k on predicted borrowing in 2012/13 of £8.5m for the Decent Homes capital programme did not need to be paid; and
- lower amounts needed for in-year debt write offs of £361k and council tax voids of £410k, reduced the total pressure on HRA expenditure.

A payment was also made to the General Fund of £1m for the transfer of The Lawns and Wood Lane land. Adding all these items together, the net unfavourable variance in the spend budgets was £1.040m.

### ***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 £0.2m. This has now been added to the existing HRA balance, which now stands at £8.5m.

The budgeted contribution to capital resources of £36.7m has been made without variation. The detailed HRA is provided in Appendix B. This is included for completeness as the final version of a different account, even though it is unchanged since provisional outturn.

## **2.8 Finance and Resources**

<b>Directorate Summary</b>	<b>2011/12 Outturn</b>	<b>2012/13 Budget</b>	<b>2012/13 Outturn</b>
	£'000	£'000	£'000
Net Expenditure	25,523	<b>19,336</b>	<b>19,140</b>
Over/(under)spend			<b>(196)</b>

The Finance & Resources Directorate outturn for 2012/13 was £196k net spend below budget.

Various net spends below budget across the different services have mainly been achieved by maintaining vacant posts (partly due to premature delivery of 2013/14 savings) and tight control over non-essential expenditure. These controls enabled the Directorate to deal with pressures which arose due to the under-recovery of court cost income in Revenues & Benefits of £648k.

## 2.9 Chief Executive

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Outturn
	£'000	£'000	£'000
Net Expenditure	122	<b>353</b>	<b>(81)</b>
Over/(under)spend			<b>(434)</b>

The Chief Executive Directorate had a net spend below budget of £434k. This was mainly due to services making transitional arrangements to deliver agreed 2013/14 savings e.g. keeping posts vacant which are due to be deleted and over achievement of income targets.

For 2012/13 the Directorate had a total savings target of £2,300k. A shortfall in delivery of £136k occurred in respect of the HR targets but this was managed this year by reductions in other expenditure.

## 2.10 Central Expenses

<b>Directorate Summary</b>	2011/12 Outturn	2012/13 Budget	2012/13 Outturn
	£'000	£'000	£'000
Net Expenditure	(1,941)	<b>3,469</b>	<b>1,021</b>
Over/(under)spend			<b>(2,448)</b>

Significant savings were achieved against the budget for interest payments, a refund of previously paid VAT and the centrally held contingency. The outturn position includes budgeted contributions to reserves of £3.0m, including £2m to fund projects that will give future revenue savings. In addition £3.6m was contributed towards capital financing, which was an increase of £0.6m compared to the figure identified in the Provisional Outturn report.

## 2.11 In Year Savings Targets

The delivery of the 2012/13 budget was dependent on meeting a savings target of £19.0m. Directorate outturns are summarised in the table below.

<b>Directorate Summary of Savings Targets</b>	<b>Target £'000</b>	<b>Outturn £'000</b>	<b>Shortfall £'000</b>
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	-
<b>Total</b>	<b>19,024</b>	<b>18,538</b>	<b>486</b>

The reason for any savings shortfalls have been included in the Directorate outturns set out in sections 2.4 to 2.10 above. A detailed breakdown of savings was provided in Appendix B to the Provisional Outturn report. As this is unchanged, it is not included with this report.



## 2.12 Capital Programme

The Capital Programme had a £24.6m net spend below budget due largely to slippage on various schemes. The table below shows the summary position:

<b>Directorate Summary of Capital Expenditure</b>	<b>Original Budget £'000</b>	<b>Revised Budget £'000</b>	<b>Outturn 2012/13 £'000</b>	<b>Variance £'000</b>
Adult & Community Services	4,472	6,205	4,163	(2,042)
Children's Services	47,212	37,507	33,562	(3,945)
Housing & Environment	64,931	51,486	39,141	(12,345)
Finance & Resources	25,223	15,739	9,447	(6,292)
Capitalisation directive	3,000	-	-	-
<b>Total</b>	<b>144,838</b>	<b>110,937</b>	<b>86,313</b>	<b>(24,624)</b>

Expenditure increased by approximately £2m compared with the position shown in the provisional outturn report. This was mainly due to invoices relating to 2012/13 being received too late for inclusion in the provisional outturn. A detailed capital outturn by schemes whose variance has changed since Provisional Outturn is included in Appendix C.

Variance changes since Provisional Outturn by area are summarised below, including explanations for amounts over £100k:

### **Adult & Community Services**

- no change

### **Children's Services**

- Schools - £1,531k further net spend:
  - Devolved capital formula - £352k. Additional creditors processed;
  - Sydney Russell – (£307k). An additional contribution was provided by the school to reduce the overspend;
  - Capital works – devolved budgets £1,409k. Further spend relating to monies spent by the schools themselves on capital works.
- Other schemes - £252k further spend on Children's Centres, of which:
  - Becontree Childrens Centre - £232k. Additional creditor processed.

### **Housing & Environment**

- Housing Revenue Account - £136k further spend, of which:
  - Planning & Contingencies £135k. Additional creditors processed;
- Housing General Fund – no change;
- Environment & Enforcement - £63k further spend;
- Parks and Open Spaces - no change.

### **Finance & Resources**

- Asset Strategy - no change;
- ICT - no change;
- Regeneration - £12k further spend.

Explanations for all project variances over £100k in 2012/13 were provided in Appendix F to the Provisional Outturn report.

## **2.13 Financial Control**

At the end of 2012/13 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**

This report has not been circulated for consultation as all revenue changes identified have been of a technical nature, and all capital changes have been/will be addressed as part of regular programme and project monitoring. This action is a one-off and not setting a precedent..

## **5 Financial Implications**

This report details the financial position of the Council.

## **6 Legal Issues**

There are no legal implications.

## **Background Papers Used in the Preparation of the Report**

- Provisional Revenue and Capital Outturn 2012/13; Cabinet 21 May 2013;

## **List of Appendices:**

- A – General Fund Outturn
- B – Housing Revenue Account Outturn
- C – Capital Outturn changes to variances (Provisional to Final)