

CABINET

22 October 2013

Title: Budget Monitoring 2013/14 - April to August 2013 (Month 5)	
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 Director: Jonathan Bunt, Chief Finance Officer	
Summary: <p>This report provides Cabinet with an update of the Council's revenue and capital position for the five months to the end of August 2013 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 £17.5m.</p> <p>At the end of August 2013 (Month 5), total service expenditure for the full year is projected to be £171.4m against the approved budget of £178.3m, a projected surplus of £7.0m. This compares to the planned surplus of £5.2m agreed at Assembly in February 2013, which arose due to late grant determination (Education Support grant (ESG)) and the decision to use a two year strategic approach to addressing funding issues in 2015/16. Explanatory summaries are contained in section 2 of this report.</p> <p>The current projected surplus of £7.0m would result in the General Fund balance increasing to £24.4m (rounded).</p> <p>The Housing Revenue Account (HRA) is projected to break even, maintaining the HRA reserve at £8.5m. The HRA is a ring-fenced account and cannot make/receive contributions to/from the General Fund.</p> <p>The Capital Programme has been updated to reflect changes approved at Cabinet, including roll forwards and reprofiles. The capital budget at 31 August stands at £142.1m. Capital budgets cannot contribute to the General Fund revenue position although officers ensure that all appropriate capitalisations occur.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <p>(i) Note the projected outturn position for 2013/14 of the Council's General Fund revenue budget at 31 August 2013, as detailed in paragraphs 2.3 to 2.9 and Appendix A of the report;</p>	

- (ii) Note the progress against the 2013/14 savings targets at 31 August 2013, as detailed in paragraph 2.10 and Appendix B of the report;
- (iii) Note the position for the HRA at 31 August 2013, as detailed in paragraph 2.11 and Appendix C of the report;
- (iv) Approve a revenue budget increase of £0.689m within the HRA in respect of locality services, as detailed in paragraph 2.11 of the report;
- (v) Note the projected outturn position for 2013/14 of the Council's capital budget at 31 August 2013, as detailed in paragraph 2.12 and Appendix D of the report;
- (vi) Approve the use of £250,000 of Section 106 monies to meet the cost of archaeological works at the Barking Leisure Centre site as detailed in paragraph 2.12;
- (vii) Approve the reprofiled Housing General Fund budget as detailed in Appendix E of the report;
- (viii) Approve the transfer from Central Expenses of the £1m provision for the 1% increase in staff pay to Council directorates, as detailed in paragraph 2.9 of the report; and
- (ix) Approve the transfer of £0.190m from the centrally held contingency to capital to fund highways improvement work as detailed in paragraph 2.12 of the report.

Reason(s)

As a matter of good financial practice, the Cabinet should be regularly updated with the position on spend against 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 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 2013/14 budget setting out risks to anticipated savings and action plans to mitigate these risks.
- 1.2 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.
- 1.3 The Budget report to Assembly in February 2013 provided for a target of £15m of General Fund balance, plus a planned surplus of £5.234m to be generated in 2013/14 and carried forward into 2014/15. The Outturn for 2012/13 led to a General Fund balance of £17.456m. The current projected position keeps the Council on track to deliver a balanced budget and maintain the minimum general fund balance of £15m.

2 Current Overall Position

2.1 The following tables summarise the spend position and the forecast position of the General Fund and Housing Revenue Account (HRA) balances.

Council Summary	Net Budget	Full year forecast at end July 2013	Over/(under) spend Forecast
	£000	£000	£000
Directorate Expenditure			
Adult and Community Services	57,349	57,349	-
Children's Services	68,547	68,547	-
Housing and Environment	23,664	23,664	-
Chief Executive	21,860	21,501	(359)
Central Expenses	1,679	311	(1,400)
	173,099	171,372	(1,759)
Budget Surplus (Agreed MTFS)	5,234	-	(5,234)
Total Service Expenditure	178,333	171,372	(6,993)

	Balance at 1 April 2013	Forecast Balance at 31 March 2014	Budgeted Combined Balance at 31 March 2014*
	£000	£000	£000
General Fund	17,456	24,417	20,234
Housing Revenue Account (including Rent Reserve)	8,461	8,461	8,461

*Budget Combined Balance for General Fund comprises a target balance of £15m plus budgeted surplus of £5.2m

2.2 The current Directorate revenue projections indicate a surplus of £7.0m for the end of the financial year, made up as follows:

- £0.359m underspend in the Chief Executive department as a result of shared arrangements with Thurrock Council and vacancies within Legal and Democratic services;
- £1.400m surplus in Central Expenses arising from interest budgets; and
- £5.234m surplus as planned and agreed in the MTFS 2013/14.

The initial forecast of a £7.0m underspend would result in the Council's General Fund balance remaining above the budgeted target of £15.0m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances.

The Chief Finance Officer, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003 and the other financial

provisions and contingency budgets held by the Council, set a target GF reserves level of £15.0m. The General Fund balance at 31 March 2013 was £17.5m and the current forecast combined balance for the end of the financial year is £24.4m. If maintained, this position will provide added flexibility for the Council in addressing the forthcoming significant further reductions in funding from the government. This compares with a budgeted combined General Fund balance of £15m plus a planned surplus of £5.2m within the two year 2013-15 strategy.

At the end of July 2013, the HRA is forecasting to break even, and maintain the HRA reserve at £8.5m.

2.3 Directorate Performance Summaries

The key areas of risk which might lead to a potential overspend are outlined in the paragraphs below.

2.4 Adult and Community Services

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	60,701	57,349	57,349
Projected over/(under)spend			-

The Adult and Community Services directorate is forecasting a balanced budget position for 2013/14. It is important to note this reported position is masking a number of pressures within the service, particularly for Mental Health (£340k), and personal budgets and direct payments for all client groups (£700k). These pressures are being mitigated by management actions within the service and draw down from funding set aside to offset anticipated service pressures. Recently a submission had been made to NHS England for Winter Pressures funding in conjunction with local health partners which will amongst other things cover pressures for seven day social care working.

The future funding regime is going to become increasingly difficult with a number of existing funding streams being rolled up into a single grant that the Local Authority will have to agree with NHS England following local agreement through the Health and Well Being Board. This comes at the same time as the planned implementation of the Care and Support Bill with significant costs for local authorities.

A challenging savings target of £4.324m is built into the 2013/14 budget. There are pressures against some of the savings, these are being reviewed and addressed in order to ensure their delivery. The net budget includes the full allocation of £3.268m social care funding transfer from NHS England; this is allocated by local Section 256 agreement taken to Health and Wellbeing Board.

2.5 Children's Services

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	69,448	68,547	68,547
Projected over/(under)spend			-

The Children's Service delivered a balanced budget for 2012/13 but it was reported that this financial position was masking significant demand pressures within the Complex Needs and Social Care division. As at the end of 2012/13 referral activity had increased consistently since the end of 2012 and shows no sign of reducing which suggests more of a trend rather than a 'spike' in demand. In 2012/13 the number of core assessments was double the level of 2011/12 and section 47 child protection investigations increased by 37% over 2012/13.

The OFSTED Safeguarding and Looked After Children inspection of June 2012 reported that caseloads were high but manageable. However, increases in demand at the end of 2012 persisting into 2013 has required additional resourcing to ensure risks can be managed.

The increases in demand and mitigating actions bring with it an increased pressure on the revenue account. Although the service is forecasting a balanced budget position for 2013/14 this is masking £4m of management actions, a number of which are one-off and will not continue into 2014/15.

The change from LACSEG to Education Support Grant and the changes to the funding of statutory services to two year olds from General Fund to the Dedicated Schools Grant have released £2.7m of ongoing funding to invest in social care demand pressures. Grant flexibility of £604k is available in 13/14 to manage pressures but, at present, there is no indication this will continue into 14/15.

The Targeted Support Division is forecasting an under spend in 2013/14 of £783m but this is largely as a result of the early achievement of approved savings for 2014/15 which means this forecast under spend is unlikely to continue into 2014/15. Finally a drawdown of £1,026k is required from the CS Reserve to achieve a balanced budget position for 2013/14

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. The indicative 2013/14 DSG allocation is £218m which is inclusive of pupil premium and sixth form funding.

2.7 Housing and Environment

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	24,040	23,664	23,664
Projected over/(under)spend			-

The Housing and Environment General Fund budget has been increased by £118k from previous month; this reflects a carry forward amount of Land Drainage Grant from 2012/13 and a release of invest to save funding of £48k to implement two-way radios on vehicles. The projection to year end is currently forecast to break even. Potential pressures have been identified within these budgets, however, it is expected that they will be managed within the service.

The main area of pressure relates to the achievement of Parking budgets, where early indications show lower than normal issue of PCNs. The service is undergoing significant system upgrades and structural changes designed to make the service more efficient and the benefits of those should arise towards the latter part of the year. The Parking Service is in the process of bidding for additional capital funding which will be invested in schemes to deliver improved efficiency and effectiveness. This will contribute to mitigating the risk.

Within the Housing General Fund, the current number of Bed and Breakfast placements is reducing. However, there would be potential risk if this trend reversed. These placements are a significant cost to the Council due to the cap on benefits payable on this type of accommodation. Whilst the current pressure is being mitigated within the service and alternative accommodation is utilised, the introduction of welfare reform provides increased risk to this position. The level of placements and impact of welfare reform is being closely monitored and reflected in financial forecasts.

The Housing General Fund budget has been reviewed and realigned to provide a more appropriate allocation across the service in line with need. The realigned position is summarised in Appendix E for Cabinet approval.

The department started the year with a savings target of £1.67m. A high proportion of the savings will be fully delivered but there is currently an overall pressure of £44k. This is mainly due to the pressures facing the Environmental Services budget but is being managed within the service.

2.8 Chief Executive Department

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	19,059	21,860	21,501
Projected (under)spend			(359)

The Chief Executive department has been expanded, to include the former Finance and Resources department. The Chief Executive (CEX) department is currently forecast to underspend by £359k at year end. This position is mainly due to in year vacancies that have arisen across the divisions and prudent use of supplies and services budgets.

2.9 Central Expenses

Directorate Summary	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	1,021	1,679	279
Projected (under)spend			(1,400)
Budget Surplus (Assembly agreed MTFS)		5,234	-
Projected Surplus			(5,234)

There is a (£1.4m) surplus expected due to the management of our cash balances enabling a lower than budgeted cost to be charged to the General Fund in 2013/14. As planned within the MTFS a budget surplus of £5.2m has been built into the base budget and the current position is projected to meet this target.

When the 2013/14 budget was set, £1m was included in Central Expenses to provide for a 1% increase in staff pay. Following confirmation of the 1% increase Cabinet is asked to approve the allocation and transfer in the table below. It should be noted that an allowance for former Council staff now working for Elevate is included within the Chief Executive's total.

Directorate	£000
Adult and Community Services	225
Children's Services	251
Housing and Environment	194
Chief Executive	330
Total	1,000

2.10 In Year Savings Targets – General Fund

The delivery of the 2013/14 budget is dependent on meeting a savings target of £16.6m. 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	Forecast £000	Shortfall £000
Adult and Community Services	4,324	4,262	62
Children's Services	2,708	2,708	-
Housing and Environment	1,665	1,621	44
Chief Executive	2,733	2,583	150
Central Expenses	5,199	5,199	-
Total	16,629	16,373	256

2.11 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven in 2013/14.

Income

Income is expected to be on budget.

Expenditure

Expenditure is forecast to be on budget. There is a potential risk within locality spending and savings delivery but these are expected to be managed within the service.

The Housing Service is in the process of aligning to the Localities structure and evaluating the budget requirement. Current projections indicate that expenditure pressures in staffing and transport will be managed through underspends on other budgets. The additional requirement is forecast to be £689k and is discussed below in more detail.

The in-house repairs and maintenance service is forecasting to deliver within budget. System issues are close to being fully resolved allowing full reporting. Projections indicate that there may be pressures relating to the set up of the service in the region of £390k due to one-off procurement costs and severance payments following reintegration of the service. These will be managed within the DLO set up budget.

As part of the 2013/14 budget agreed by February Cabinet, the Service committed to delivering savings of £1.4m from its Supervision & Management budget. Of the savings options identified, and currently going through validation, approximately £1m is non-staff related and forecast to be achievable. The remaining £400k is subject to staffing restructures and if not delivered will add to the pressure. Detailed monitoring of HRA savings will be provided in future months once details are finalised.

As with the General Fund, the introduction of welfare reform this year is expected to increase pressure on the HRA with the combination of the bedroom tax, benefit cap and Universal Credit impacting on income levels. Some provision has been made within the budget through increased bad debt provision plus the availability of discretionary housing payments. The position is being monitored closely.

HRA Balance

The HRA maintains revenue reserves balance of £8.5m and it is currently anticipated that this will be maintained at the end of 2013/14.

There is a budgeted contribution to capital resources of £35.5m. However, this will be reviewed to accommodate expenditure pressures such as the Localities change below.

Budget Adjustment – Localities

Following the transfer of line management responsibility for frontline environmental and caretaking services from the Housing Management Service to Environmental Services, the accounting treatment of the budgets for providing this service needs to change. This change will mean that the budgets for the service will become a recharge to the HRA via the General Fund, rather than a direct cost to the HRA.

In making this transition, officers have performed a zero basing of the budgets for the service and established a need for an increase in the revenue provision from £4.662m to £5.351m, an increase of £0.689m, within the Locality Management cost

centre. The increase will be funded through a corresponding reduction in the revenue contribution to capital. Existing capital scheme allocations will not be impacted, however there will be a reduction in capital contingency within the business plan. The increase is not expected to be on an ongoing basis, but to reduce in line with service efficiencies.

This is to create a pool of five staff to cover staff absences in critical services and reduce the need for agency staff; to establish a budget for evening caretaking; equipment requirements; and to create a new managerial position to oversee the new service.

2.12 Capital Programme

The Capital Programme (2013/14) forecast spend is as follows:

	Budget £'000	Actual Year to Date £'000	Projected Outturn £'000	Variance against Budget £'000
Adult & Community Services (ACS)	9,948	659	9,974	26
Children's Services (CHS)	28,721	9,723	26,179	(2,542)
Housing & Environment (H&E)	3,839	1,575	4,181	342
Chief Executive (CEO)	11,708	1,349	11,037	(671)
General Fund subtotal	54,216	13,306	51,371	(2,845)
HRA	87,854	12,321	87,854	0
Total	142,070	25,627	139,225	(2,845)

The detail for schemes is in Appendix D. Please note totals here may differ slightly to those in Appendix D due to roundings.

Summary

The total approved capital programme currently stands at £142.1m. Against this budget, Directorates are currently projecting to spend £139.2m, representing an overall underspend of £2.9m. The year-to-date capital expenditure total is £25.6m; meaning that £113.6m is still expected to be spent in the remaining seven months of the year. The Finance Service will continue to monitor this closely in conjunction with service Project Managers and Sponsors, in order to identify any potential year-end underspends or slippage as early as possible.

Progress to Date on Approved Schemes

Adult & Community Services (ACS)

There are no forecast variances of note to be reported this month. It should be noted however that unbudgeted costs of approximately £0.250m are being incurred relating to archaeological works on the site of Barking Leisure Centre. Section 106

funding has been identified to meet this cost and Members are asked to approve the use of this funding to meet the additional costs. It should also be noted that the Leisure Centre is now likely to open in late 2014.

Children's Services (CHS)

These budgets are currently showing an underspend of £2.542m. This overall position consists of a number of individual variances across various projects. These variances are likely to be temporary and will be addressed as part of the next re-profile exercise to Cabinet (Month 6 - November), when the Basic Needs funding is allocated and approved for particular projects.

Housing & Environment (H&E)

The HRA has a revised funded programme totalling £88.437m (£87.854m plus £0.583m for Disabled Adaptations within the ACS total). The programme is forecasting to spend to budget in 2013/14. The Disabled Adaptations scheme is funded by the HRA but included within the ACS position for reporting.

The Environment capital programme budget has been increased to reflect approvals last month of £0.288m and now stands at £3.649m. The sums required have been further clarified since the last Cabinet report and approval is needed for a further £0.190m from the centrally held contingency, taking the total for all highways improvements to £3.839m.

The Environment service is currently reporting an overspend of £0.342m. This relates to a roll-forward from 2012/13 in respect of Parking Strategy Improvements. It is anticipated that this situation will be resolved when a bid for additional capital funding for Parking is being presented to Cabinet in October (elsewhere on this agenda).

Chief Executive (CEO)

The Directorate is currently reflecting an overall variance position of £0.671m below approved budget primarily due to slippage in Regeneration, ICT, and Asset Strategy schemes.

The overall variance is mainly due to slippage of £0.240m in the London Road North Street Site Acquisitions scheme which relates to public realm works which can only commence following the completion of the new ADSA store. £0.1m of the Legi grant is currently unallocated, pending options appraisal for appropriate projects for delivery in 2014/15.

The ICT Modernisation & Improvement Capital fund is expected to request slippage of £0.170m due to re-programming of the MyAccount Phase 3 project, with two tranches to be delivered in 2014/15. The Corporate Accommodation Strategy project variance of £0.125m is due to the programming of works to return leased buildings to appropriate conditions required in 2014/15 and 2015/16. Re-profile requests will be submitted in November for the Directorate's schemes.

It should be noted that an omitted budget of £0.315m has been added to the capital programme for the Thames Road Corridor Improvements funded from the sale of the Cromwell Centre in Thames Road, Barking as previously agreed by Cabinet.

b) Funding with projects being developed

The Council has £55m in respect of Basic Needs Funding for schools where the projects are currently in the process of being developed or project sums in each phase are being finalised. An update of this position will be made to the next Budget Monitoring report (Month 6) to Cabinet, in November.

2.13 Financial Control

At the end of August all key reconciliations have been prepared and reviewed, and there are 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 relevant elements of 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 2012/13; Cabinet 25 June 2013;
- Budget Framework 2013/14; Assembly 25 February 2013.

Appendices

- A – General Fund expenditure by Directorate
- B – Savings Targets by Directorate
- C – Housing Revenue Account Expenditure
- D – Capital Programme
- E – Reprofiled Housing General Fund Budget