

## CABINET

18 December 2013

<b>Title:</b> Budget Monitoring 2013/14 - April to October 2013 (Month 7)	
<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
<b>Report Author:</b> Kathy Freeman Group Manager, Corporate Finance	<b>Contact Details:</b> Tel: 020 8227 3497 E-mail: <a href="mailto:kathy.freeman@lbbd.gov.uk">kathy.freeman@lbbd.gov.uk</a>
<b>Accountable Director:</b> Jonathan Bunt, Chief Finance Officer	
<b>Summary</b> <p>This report provides Cabinet with an update of the Council's revenue and capital position for the seven months to the end of October 2013, projected to the year end.</p> <p>The Council began the current year in a better financial position than the previous year with a General Fund (GF) balance of £17.5m.</p> <p>The Council's approved budget of £178.3m for 2013/14 includes a budgeted surplus of £5.2m, agreed by Assembly in February 2013, earmarked to address the funding issues of 2014/15.</p> <p>At the end of October 2013 (Month 7), the projected in-year surplus is £3.2m. This projection remains unchanged since September.</p> <p>The total service expenditure for the full year is projected to be £169.9m against the budget of £178.3m. The in-year surplus of £3.2m combined with the budgeted surplus of £5.2m results in a projected surplus of £8.4m. The projected year end surplus will increase General Fund balances to £25.8m at the year end. The position reported remains unchanged from September.</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 current capital programme budget of £142.7m has been reviewed by project managers for deliverability and a reprofiled budget of £137.8m for the year is now proposed for members' approval. In addition, a further £0.3m allocation from reserves is proposed for approval for essential highways improvements. 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 2013/14 of the Council's General Fund revenue budget at 31st October 2013, as detailed in paragraphs 2.3 to 2.9 and Appendix A of the report;
- (ii) Note the progress against the 2013/14 savings targets at 31st October 2013, as detailed in paragraph 2.10 and Appendix B of the report;
- (iii) Note the position for the HRA at 31st October 2013, as detailed in paragraph 2.11 and Appendix C of the report;
- (iv) Note the projected outturn position for 2013/14 of the Council's capital budget at 31st October 2013, and approve the reprofiled budget as detailed in paragraph 2.12 and Appendix D of the report;
- (v) Approve an increase of £313k from Capital Reserves to the Highways Capital Programme to fund essential repair and reconstruction works to the Council's footways, 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 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.

<b>Council Summary</b>	<b>Net Budget</b>	<b>Full year forecast at end October 2013</b>	<b>Over/(under) spend Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Directorate Expenditure</b>			
Adult and Community Services	57,235	57,235	-
Children's Services	66,387	66,387	-
Housing and Environment	25,419	25,419	-
Chief Executive	22,729	22,370	(359)
Central Expenses	1,329	(1,471)	(2,800)
	<b>173,099</b>	<b>169,940</b>	<b>(3,159)</b>
Budget Surplus (Agreed MTFS)	5,234	-	(5,234)
<b>Total Service Expenditure</b>	<b>178,333</b>	<b>169,940</b>	<b>(8,393)</b>

	<b>Balance at 1 April 2013</b>	<b>Forecast Balance at 31 March 2014</b>	<b>Budgeted Combined Balance at 31 March 2014*</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	17,456	25,849	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 £8.4m 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;
- £2.8m surplus in Central Expenses arising from interest budgets and a one off grant windfall from the Department of Education (DfE); and
- £5.234m surplus as planned and agreed in the Medium Term Financial Strategy 2013/14.

The initial forecast of a £8.4m 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 £25.8m. 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 October 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. It should be noted that net directorate budgets have changed since last month due to a re-allocation of depreciation charges between directorates. This is a technical accounting adjustment that has no effect on service delivery budgets.

### 2.4 Adult and Community Services

<b>Directorate Summary</b>	2012/13 Outturn £000	2013/14 Budget £000	2013/14 Forecast £000
Net Expenditure	60,701	<b>57,235</b>	<b>57,235</b>
Projected over/(under)spend			-

The Adult and Community Services directorate is forecasting a balanced budget position for 2013/14. This reported position is masking a number of pressures within the service, particularly for Mental Health (£0.40m) and external care budgets for Older people (£0.47m). These pressures are being contained by management actions within the service and draw down from funding set aside to offset anticipated service pressures. The net budget includes the full allocation of £3.27m social care funding transfer from NHS England. This is allocated by local Section 256 agreement taken to the Health and Wellbeing Board (H&WB) and payment is expected soon.

Proposals for use of re-ablement monies totalling £0.65m were agreed by the Health and Wellbeing Board on the 17<sup>th</sup> September to improve re-ablement services and outcomes for residents. The outcome of a submission to NHS England for Winter Pressures funding is awaited, including £0.41m for Barking and Dagenham social care. Amongst other issues this funding covers pressures for 7 day social care working.

A challenging savings target of £4.32m 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.

## 2.5 Children's Services

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	69,448	<b>66,387</b>	<b>66,387</b>
Projected over/(under)spend			-

Children's Services 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.

During 2013/14, referral activity has increased consistently, suggesting more of a trend rather than a 'spike' in demand. This has required additional resourcing to ensure that risks are manageable. The number of assessments carried out has increased by 21% in the year to date, compared to the same period in 2012/13.

For 2014/15, current levels of social care need would lead to a budget pressure of £4m. This is likely to increase to around £6m as numbers of children in the borough increase. Despite the increase in numbers of Looked After Children subject to plans we remain below our statistical neighbour rates per 10,000 for Looked After Children. Our caseloads, whilst moving to acceptable levels remain well above the Munro recommendation and lead to recruitment challenges.

The position is being managed in 2013/14 through flexible use of government grants. For example, the change from Local Authority Central Spend Equivalent Grant 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 £2.70m of ongoing funding to invest in social care demand pressures. Grant flexibility of £0.60m is also available in 2013/14 to manage pressures.

The Targeted Support Division is forecasting an under spend in 2013/14 of £0.82m 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 £2.71m is required from the CS Reserve to achieve a balanced budget position for 2013/14. This has increased from the £1.0m forecast in September's monitoring due to an increase in both the number and cost of agency social workers needed to deal with the increasing number of referrals made to the children's social care service. The agency staffing numbers are however expected to fall as staffing levels are brought in line with the agreed establishment. It should be noted that approximately £0.3m will remain in the reserve for use in 2014/15.

## 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

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	24,040	<b>25,419</b>	<b>25,419</b>
Projected over/(under)spend			-

Environmental services is currently forecast to breakeven at year end but there are risks mainly within Direct Services arising as a result of pressures in achieving income targets and increased vehicle costs. These pressures are being mitigated through vacant posts and prudent use of budgets across the division.

Previous month's reports have highlighted Parking as a risk area as early indications showed fewer than normal PCNs being issued and pressures arising from car park closures and staff permit take up. The risk of financial pressure through reduced income has now been mitigated through upgrades in the Civica parking management system and structural improvements within the service, such as the introduction of cashless pay & display machines, investments in new cameras and the automation of permit issue.

Within the Housing General Fund, the current number of Bed and Breakfast placements is holding steady as at October, however, there is potential budget risk if this trend continues, as the budget anticipates that numbers should reduce as the year progresses. These placements are a significant cost to the Council due to the cap on benefits on this type of accommodation. To date homelessness pressures have been contained within the service budget but Members should be aware that the impact of the recent changes in welfare will be felt in the latter part of the year and officers anticipate an increase in the number of homeless cases where accommodation in borough is unaffordable

The level of placements and impact of welfare reform is being closely monitored and reflected in financial forecasts.

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

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	19,059	<b>22,729</b>	<b>22,370</b>
Projected (under)spend			<b>(359)</b>

At the end of October, the Chief Executive department is forecast to underspend against its revised budget by £359k at year end. This is mainly due to in year vacancies across the divisions, tighter controls of expenditure, savings from treasury management contracts and additional training income from schools and Elevate.

## 2.9 Central Expenses

<b>Directorate Summary</b>	2012/13 Outturn	2013/14 Budget	2013/14 Forecast
	£000	£000	£000
Net Expenditure	1,021	<b>1,329</b>	<b>(1,471)</b>
Projected (under)spend			<b>(2,800)</b>
Budget Surplus (Assembly agreed MTFs)		<b>5,234</b>	-
Projected Surplus			<b>(5,234)</b>

There is a £1.4m surplus expected due to the management of our cash balances enabling a lower than budgeted interest cost to be charged to the General Fund in 2013/14.

The Council has also received a windfall from the Department for Education (DfE) of £1.4m. This relates to the Academy Top Slice applied to the Council's Revenue Support Grant in 2012/13. Due to changes in how Academies are funded, previously top sliced sums are being returned to Local Authorities nationally. This one off payment increases the overall surplus on Central Expenses to £2.8m.

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.

## 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. Where there are shortfalls, these will be managed within existing budgets and do not affect the monitoring positions shown above.

A detailed breakdown of savings and explanations for variances is provided in Appendix B.

<b>Directorate Summary of Savings Targets</b>	Target £000	Forecast £000	Shortfall £000
Adult and Community Services	4,324	4,262	<b>62</b>
Children's Services	2,708	2,708	-
Housing and Environment	1,665	1,621	<b>44</b>
Chief Executive	2,733	2,583	<b>150</b>
Central Expenses	5,199	5,199	-
<b>Total</b>	<b>16,629</b>	<b>16,373</b>	<b>256</b>

## 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, however, there is potential risk within locality spend and the delivery of planned savings. Current projections assume that expenditure pressures will be managed through underspends on other budgets. The in-house repairs and maintenance service is forecasting to underspend its revenue budget as it is providing increased support on capital schemes. System issues are close to being fully resolved to allow full reporting.

As with the General Fund, the introduction of welfare reform is expected to increase pressure on the HRA with the combination of the bedroom tax, benefit cap and Universal Credit impacting on the income levels of tenants. 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

Overall, the HRA is forecasting to breakeven. The HRA maintains revenue reserves balance of £8.5m. Currently it is anticipated that this will be maintained at £8.5m by the end of 2013/14.

There is a budgeted contribution to capital resources of £35.5m; however, this may be reviewed to accommodate expenditure pressures.

## 2.12 Capital Programme 2013/14

The Capital Programme forecast when compared to the current budget is as follows:

Directorate	Budget £000	Actual YTD £000	Forecast £000	Variance £000
Adult & Community Services	9,948	2,388	7,703	(2,245)
Children Services	28,721	16,235	34,659	5,938
Housing & Environment	4,489	2,505	4,503	14
Chief Executive	11,708	3,160	10,316	(1,392)
<b>General Fund</b>	<b>54,866</b>	<b>24,288</b>	<b>57,181</b>	<b>2,315</b>
HRA	87,854	28,671	80,587	(7,267)
<b>Total</b>	<b>142,720</b>	<b>52,959</b>	<b>137,768</b>	<b>(4,952)</b>

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

## Re-profiles

Following the budget monitoring report that went to Cabinet on 19 November 2013, which contained forecasts as at the end of September, project managers have taken the opportunity to review the progress of schemes six months into the financial year. Budgets have been re-profiled to give a realistic estimate of what can be delivered within the 2013/14 financial year and Members are asked to agree to



the re-profiled budgets for the capital programme. In addition, following a thorough review of the condition and safety levels of the footways it has been identified that a further £313k is required to repair four roads in the Council. These footways have been assessed as being in need of reconstruction to bring them up to acceptable standards. If approved, this will be funded from capital reserves.

The table below shows the effect of the re-profiled budgets on the capital programme by directorate, together with the revised variances:

Directorate	Current Budget £000	Budget Movement £000	Reprofiled Budget £000	Forecast £000	Variance £000
Adult & Community Services	9,948	(2,245)	7,703	7,703	0
Children Services	28,721	6,019	34,740	34,659	(81)
Housing & Environment	4,489	14	4,503	4,503	0
Chief Executive	11,708	(1,392)	10,316	10,316	0
<b>General Fund</b>	<b>54,866</b>	<b>2,396</b>	<b>57,262</b>	<b>57,181</b>	<b>(81)</b>
HRA	87,854	(7,267)	80,587	80,587	0
<b>Total</b>	<b>142,720</b>	<b>(4,871)</b>	<b>137,849</b>	<b>137,768</b>	<b>(81)</b>

It should however be noted that actual capital expenditure seven months into the financial year is £52.9m against a full year forecast of £137.8m. This means that project managers and sponsors are anticipating expenditure of £84.9m in the remaining five months of the financial year. The Finance Service will continue to monitor this position 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)

The re-profiled budget has reduced by £2.245m, as there has been a delay on Barking Leisure Centre due to the archaeological findings.

#### Children's Services (CHS)

The budget has increased by £6.019m due to additional funds being allocated from government grant for new schemes such as £3.6m for All Saints expansion and £1.15m for Barking Riverside City Farm school. The variance is due to an increase in the budget for the Advanced Skills Centre to cover expenditure carried forward from the previous financial year.

#### Housing & Environment (H&E)

Forecast spend for the Environment service has increased by £14k. This relates to Abbey Green Churchyard wall, where the cost of restoration may exceed initial estimates. It will be funded by a revenue contribution from the service.

### Chief Executive (CEO)

The budget has decreased by £1.392m, with the main element being the re-profiling of expenditure on asset management plans for the corporate estate.

### HRA

There has been a decrease of £7.267m in the capital budget due to delays being experienced in various projects, either at delivery, design or tender stage. The main schemes affected are roof replacements, internal works, Becontree Heath Enveloping and Lawns & Wood Lane bungalows

## 2.13 Financial Control

At the end of October, 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 have 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:** None

## List of Appendices

- **Appendix A** – General Fund expenditure by Directorate
- **Appendix B** – Savings Targets by Directorate
- **Appendix C** – Housing Revenue Account Expenditure
- **Appendix D** – Capital Programme