

## CABINET

16 December 2014

<b>Title:</b> Budget Monitoring 2014/15 - April to October 2014 (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> No
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<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 2014, 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 £27.1m. The Council's approved budget of £165.3m for 2014/15 includes a budgeted drawdown from reserves of £1.0m, agreed by Assembly in February 2014. This budget gap forms part of the savings requirement for 2015/16.</p> <p>At the end of October 2014 (Month 7), there is a projected overspend of £1.3m, predominantly on the Children's Services budget after the agreed application of the remainder of the Children's Services reserve. The Executive Director of Children's Services presented a report to the last Cabinet meeting detailing measures being taken by the service to reduce its expenditure. Alongside these measures Cabinet has agreed that all Chief Officers and budget managers should authorise only essential expenditure relating to their service areas and that any savings proposals agreed for future years should be implemented this year where possible. These initiatives have led to a reduction in the forecast overspend for this financial year, with the projected overspend reducing by £1.9m from the September position.</p> <p>The total service expenditure for the full year is currently projected to be £166.6m against the budget of £165.3m. The projected year end overspend coupled with the reserve drawdown will reduce the General Fund balance to £24.8m at the year end. The Housing Revenue Account (HRA) is projected to break-even, leaving the HRA reserve at £8.7m. The HRA is a ring-fenced account and cannot make or receive contributions to/from the General Fund.</p> <p>The Capital Programme budget now stands at £142.4m, following the re-profiling agreed at November's Cabinet. 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 2014/15 of the Council's General Fund revenue budget at 31 October 2014, as detailed in paragraphs 2.4 to 2.10 and Appendix A of the report;
- (ii) Note the impact on the outturn position of expenditure restrictions and early savings implementation agreed at 25 September Cabinet and detailed in paragraph 2.2;
- (iii) Note the progress against the agreed 2014/15 savings at 31 October 2014, as detailed in paragraph 2.11 and Appendix B of the report;
- (iv) Note progress against the agreed 2014/15 HRA savings as detailed in paragraph 2.12 and Appendix B of the report;
- (v) Note the overall position for the HRA at 31 October 2014, as detailed in paragraph 2.12 and Appendix C of the report;
- (vi) Approve the drawdown of £270k from Children's Services reserve as detailed in paragraph 2.5.

## **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 report 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 2014/15 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 2014 provided for a target of £15.0m for the General Fund balance. The revenue outturn for 2013/14 led to a General Fund balance of £27.1m. The current projected position, unless addressed, would mean a reduction in the General Fund balance to £24.4m, but still above the target general fund balance of £15.0m.

- 1.4 The additional level of reserves above the minimum level provides the Council with some flexibility in its future financial planning but, to take advantage of that, it is essential that services are delivered within the approved budget for the year. Overspends within directorate budgets will erode the available reserves and therefore limit the options that reserves could present in the medium term.

## 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 2014/15</b>	<b>Net Budget  £000</b>	<b>Full year forecast at end October 2014 £000</b>	<b>Over/(under) spend Forecast  £000</b>
<b>Directorate Expenditure</b>			
Adult and Community Services	55,377	54,670	(707)
Children's Services	62,119	66,185	4,066
Housing (GF)	3,586	3,586	-
Environment	20,499	20,499	-
Chief Executive	21,332	20,848	(484)
Central Expenses	3,451	1,901	(1,550)
<b>Total Service Expenditure</b>	<b>166,364</b>	<b>167,689</b>	<b>1,325</b>
Budgeted reserve drawdown (to Central Expenses budget)	(1,044)	(1,044)	-
<b>Total Expenditure</b>	<b>165,320</b>	<b>166,645</b>	<b>1,325</b>

	<b>Balance at 1 April 2014 £000</b>	<b>Forecast Balance at 31 March 2015 £000</b>
General Fund	27,138	24,769*
Housing Revenue Account	8,736	8,736

\*The forecast general fund balance includes the £1.3m projected overspend plus the £1m planned drawdown from reserves.

### 2.2 Chief Finance Officer's comments

The current Directorate revenue projections indicate an overspend of £1.3m for the end of the financial year, made up as follows:

- £0.5m underspend in the Chief Executive directorate mainly as a result of vacancies within the directorate;
- £0.7m underspend in the Adult & Community Services directorate as a result of widening the use of the Public Health grant;

- £1.6m underspend in the Central Expenses budget due to VAT refunds and reduced borrowing costs as a result of well managed cash flow; and
- £4.1m overspend in Children's Services due to demand pressures in the Complex Needs and Social Care division.

As noted above, the current forecast overspend within Children's Services represents the greatest area of risk to delivering a balanced budget for 2014/15. November's Cabinet received a report from the Director of Children's Services that set out options for reducing expenditure in the current financial year. These options are anticipated to reduce expenditure by the end of the year and £0.6m has been factored into the current forecast. Alongside the actions by Children's Services, September Cabinet agreed that Chief Officers and budget managers only authorise expenditure on areas that are essential to the delivery of their service. The effects of these measures are starting to show in the monitoring and it is anticipated that forecast spend will reduce further as the measures become fully effective.

On 7 October, Cabinet agreed a number of savings items for the next three years for management implementation and at its 21 October meeting, Cabinet agreed that these should be implemented immediately wherever possible to assist with the in year position. Included in those proposals was the transfer of the funding of c£700k of services from the General Fund to the Public Health grant from April 2015. Following review, the Cabinet Member for Adult Social Care & Health is supportive of this occurring in the current financial year.

November's Cabinet also agreed a review of the Council's fees and charges with, in most cases, an increase from 1 January 2015. This additional income is not budgeted for in the current financial year and therefore any increase in income generated will mitigate the projected overspend.

As previously reported, there are further options for this financial year including the transfer of the net income for the commercial portfolio currently accounted for in the Housing Revenue Account and a potential reduction in the required bad debt provision for temporary accommodation based on current demand. Updates on these two measures, which total nearly £1m, will be included in future reports.

Whilst the currently forecast overspend, would result in a reduction in the Council's General Fund balance, it would still remain 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 2014 was £27.1m and the current forecast balance for the end of the financial year is £24.8m.

At the end of October 2014, the HRA is forecasting a balanced budget, maintaining the HRA reserve at £8.7m.

### 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

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	55,191	<b>55,377</b>	<b>54,670</b>
Projected over/(under)spend			<b>(707)</b>

The Adult and Community Services directorate is overall forecasting an underspend of £707k for 2014/15. This position is after a recent decision to charge Substance Misuse and Drug and Alcohol Action Team services as well as Sports Development to Public Health grant. There are still a number of pressures within the service, particularly for Mental Health and non-residential care budgets for all client groups. These pressures have been evaluated and appropriate management actions within the service will be implemented as necessary. The net budget includes the full allocation of £4.185m social care funding transfer from NHS England; this is allocated by local Section 256 agreement and is part of our Better Care Fund (BCF) as taken to the Health and Wellbeing Board (H&WBB) in March 2014. Submission templates for the social care funding transfer have recently been released by NHS England and have been completed.

A savings target of £2.438m is built into the 2014/15 budget. These are largely all in process of being delivered or necessary changes have already been made, any shortfalls are being covered within the relevant division.

The Adult and Community Services budget includes Public Health, responsibilities for which transferred over to the Council in April 2013. The service is wholly grant funded, i.e. a net budget and the grant for 2014/15 is £14.213m. The grant contributes towards the Council's preventative agenda by promoting healthy outcomes for adults and children. At the end of the last financial year there was an underspend of £785k, which as a ring-fenced grant has been carried-forward into the current financial year. As noted above, a recent review has been undertaken in order to free up usage of the grant so that other appropriate general fund services can be charged to the grant to help alleviate the overall corporate budget pressure.

The future social care funding regime is becoming increasingly challenging with a number of existing funding streams being rolled together. A further BCF submission was sent last month following the September H&WBB. There is also further work being undertaken on planned implementation and financial impact of the Care Act. £125k grant has been awarded by the Department of Health to meeting initial implementation costs; further resource costs of £500k are estimated over the next 12 months which Cabinet has agreed will be funded from reserve monies set aside for future pressures within the directorate.

## 2.5 Children's Services

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	65,016	<b>62,119</b>	<b>66,185</b>
Projected over/(under)spend			<b>4,066</b>

Overall for 2014/15 the Service is forecasting an over spend of £4.1m. This figure is derived from a gross overspend of £6.6m less the application of the remaining Children's Services reserve of £1.5m and the forecast achievement of £1m of expenditure reductions over the remainder of the financial year. This represents a reduction of £600k from the September position. The main overspends (before expenditure reduction) are in Assessment and Care Management (£1.0m), where the increased use of agency staff has contributed significantly to the overspend, legal costs (£800k), No Recourse to Public Funds cases (NRPF) £1.8m), Placements (£1.0m), SEN transport (£200k) and Commissioning and Safeguarding (£300k). Work is now underway to review all costs to ameliorate the increase in demand within Social Care and quantify the service demand and changes in unit costs since the budget was set.

As mentioned above, a potential reduction in the overspend of c£1.0m has been identified and further work continues to review these reporting reductions through weekly progress meetings. The reduction will be achieved through a variety of measures, including reduced reliance on agency staff, improved planning of legal cases, further challenge to NRPF claims, targeting a 1% reduction in placement costs and reducing the level of escort support in SEN transport. The projected outturn figure does not, however, take into account the continuing demographic growth (approximately 150-250 new children into borough each month). This may significantly increase the projections.

An update was reported to Cabinet last month by the Director of Children's Services that set out clear options for significantly reducing or eliminating the adverse budget position. The report contained supporting growth data, analysis, trends and benchmarking analysis. A further update will be presented to members in January 2015.

At its June meeting, Cabinet agreed that a number of service underspends from 2013/14 could be carried forward to fund specific areas of expenditure in 2014/15. Cabinet is now requested to approve the use of these carried forward balances in Education (£145k), Complex Needs and Social Care (£50k) and Commissioning and Safeguarding (£75k). It should be noted that these amounts are not part of the £1.5m directorate reserve and do not affect the projected outturn position.

## 2.6 Dedicated School Grant (DSG)

The DSG is a ring fenced grant to support the education of school-age pupils within the borough. The 2014/15 DSG allocation is £228.0m, covering Individual Schools Budgets, High Needs and Early Years services.

## 2.7 Environment

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	22,425	<b>20,499</b>	<b>20,499</b>
Projected over/(under)spend			-

Environmental Services is forecast to breakeven at year end, however, there is increasing risk against this position. The service will need to manage pressures of £2.0m to deliver on budget. This position has increased by £0.1m since September due to increasing pressure on income budgets within Building Control.

The potential risk to this position is a combination of pressure on staffing budgets, income pressure, increased ELWA disposal costs and increasing fuel and utility costs. The Building Control service has now been brought back in-house and, following a review of the financial position, a risk on achieving the budgeted level of income and pressure within staffing budgets has been identified.

Current projections indicate pressure of £470k due to delays in delivering agreed saving proposals. Environment's share of the savings target is £904k in 2014/15; however, the expected shortfall is due to delays in determining the future use of 2 and 90 Stour Road (£295k) and loss of income generating assets affecting the Parking Service (£175k). A review of Parking income projections is underway to provide assurance against year to date performance.

A significant element of risk is outside the services direct control, however, an action plan is being delivered to support mitigation. This includes reviewing income opportunities, utilising one off grants, holding posts vacant, ensuring recharges and income collection are up to date and maintaining expenditure restraint across the service. Further pressure on this position is increasingly difficult to absorb and manage. Alongside this, the service is reviewing budgets with a view to realigning and bringing allocations in line with requirements.

## 2.8 Housing General Fund

<b>Directorate Summary</b>	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	2,530	<b>3,586</b>	<b>3,586</b>
Projected over/(under)spend			-

Current projections indicate a breakeven position in 2014/15. Reduced spend on Bed and Breakfast is expected to offset un-budgeted pressures within the service. The main risk to the position is the level of temporary accommodation placements, particularly the numbers within Bed and Breakfast, and the level of arrears.

There were 61 Bed and Breakfast placements as at the end of October 2014 which is the same as the September position. Placements over the first 7 months of the year have typically been within budget assumptions and a continuation of this trend over the remainder of the year should enable the service to keep within budget. The

service actively works to minimise Bed and Breakfast placements including utilising decanted stock and incentivising private sector landlords.

The status of arrears has moved over the first 7 months of the year with a greater proportion now categorised as former tenants – this follows an increase in the number of evictions. Former tenant arrears require a larger bad debt provision due to the reduced likelihood of collection. Arrears have increased by £278k since September 2014. Targeted intervention and additional collection resource is being deployed to further improve arrears management.

Bed and Breakfast placements and movements in arrears continue to be closely monitored as does the impact of welfare reform.

## 2.9 Chief Executive's Directorate

<b>Directorate Summary</b>	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	18,475	<b>21,332</b>	<b>20,848</b>
Projected over(under)spend			<b>(484)</b>

The Chief Executive (CE) department at this stage is reflecting a projected underspend position against its revised budget of £484k. This position is mainly attributed to in year vacancies across the department and services making transitional arrangements to enable the delivery of 2015/16 savings.

The department has absorbed a £100k pressure from shortfalls projected against the school buyback income budget in HR & Payroll. There is also a net £150k pressure which has arisen from the projected under-recovery of court cost income in Revenues & Benefits due to improved collection, resulting in a reduction in the number of cases being taken to court.

The overall position represents a slight improvement from last month's position of (£431k) partly due to the impact of the Council wide freeze on non essential spend.

The department had been set a savings target in 2014/15 of £1.2m, which have been achieved.

## 2.10 Central Expenses

<b>Directorate Summary</b>	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	4,382	<b>2,407</b>	<b>857</b>
Projected over(under)spend			<b>(1,550)</b>

Central Expenses is projecting an underspend of £1.6m resulting from a refund of overpaid VAT (£400k), reduction in borrowing costs improved rate of return on cash deposits (£650k) and a forecast increase in the agency staff contract rebate (£500k). The agency staff contract rebate increases as more agency staff are employed with the increased usage of such staff by Children's Services having



contributed significantly to the higher rebate and should be viewed as offsetting some of the pressure in that area.

Further savings may be available from the bad debt provision for Council Tax and temporary accommodation arrears if current collection rates are maintained; updates will continue to be given to Cabinet at each meeting.

It should be noted that a potential risk has materialised due to a recent fire incident at the ELWA owned waste management plant at Frog Island which impacts all ELWA boroughs. Work is currently underway to assess the extent of the cost/timeline for remedial works and there is scope for both disruption to service provision and large additional costs. While it is hoped that all legitimate costs will be claimed from insurance, there is potential for the ELWA levy payable by Barking and Dagenham to be higher than budgeted for at the start of the financial year. This will be monitored closely in the coming weeks and mitigating actions identified where possible.

## 2.11 In Year Savings Targets – General Fund

The delivery of the 2014/15 budget is dependent on meeting a savings target of £8.7m. 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>	<b>Target £000</b>	<b>Forecast £000</b>	<b>Shortfall £000</b>
Adult and Community Services	2,438	2,398	<b>40</b>
Children's Services	2,964	2,964	-
Housing and Environment	1,129	659	<b>470</b>
Chief Executive	1,219	1,219	-
Central Expenses	971	971	-
<b>Total</b>	<b>8,721</b>	<b>8,211</b>	<b>510</b>

## 2.12 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven.

### ***Income***

Income is expected to overachieve by £419k. Pressure of £194k on garage rents, due to a higher than expected void level, is more than offset by additional income from water charges to tenants and an expected overachievement on interest received on HRA cash balances.

The main risk to this position is the impact of welfare reform. 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 stock movements are being closely monitored as an increasing level of Right to Buy activity and higher than budgeted void levels may adversely impact rental income.

### ***Expenditure***

Expenditure is expected to overspend by £419k. Expenditure pressure within the caretaking service and delayed delivery of savings provide the main risk, however, this is expected to be mitigated through underspending budgets and the one off receipt of recovered water and sewerage overpayments.

Current forecasts indicate delivery of £4.6m of the £6.1m saving requirement with a shortfall of £1.5m. This is primarily due to delays in commencing restructures, the ongoing review of energy billing within communal areas and non-receipt of income from Barking & Dagenham Reside for the provision of Housing Management and Repairs and Maintenance services due to higher than expected void levels.

The position has worsened since last month due to ongoing delays to restructures, however, an intermediate review of arrears indicates a lower contribution to the bad debt provision than initially expected. Delayed or reduced delivery is expected to be managed within the HRA to ensure a breakeven position.

### ***HRA Balance***

It is expected that HRA balances will remain at £8.7m. There is a budgeted contribution to capital resources of £35.5m.

## **2.13 Capital Programme 2014/15**

The Capital Programme forecast against budget as at the end of October 2014 is as follows:

	2014/15 Re-profiled Budget £'000	Actual Spend to Date £'000	2014/15 Forecast £'000	Variance against Budget £'000
ACS	10,451	6,959	10,451	-
CHS	26,882	14,692	27,232	350
H&E	5,492	2,900	5,492	-
CEO	9,139	2,517	9,139	-
<b>Subtotal - GF</b>	<b>51,964</b>	<b>27,068</b>	<b>52,314</b>	<b>350</b>
HRA	90,439	37,443	90,239	(200)
<b>Total</b>	<b>142,403</b>	<b>64,511</b>	<b>142,553</b>	<b>150</b>

The detail for individual schemes is shown in Appendix D.

## **Summary**

The capital programme stands at £142.4m following the addition of the additional budget of £283k for the website redesign that Cabinet approved at its meeting last month. Directorates are currently anticipating to exceed this years budget by £150k, the funding for which will be brought forward from future years of the programme. As the programme is now in the second half of the year, but the spend to date is still less than half of the total budget, an accelerated level of spend would need to be incurred in the remaining six months in order to meet the current forecast. As the winter period can slow down and delay works due to bad weather, it may mean that some of the programmed works are not completed this year, and budgets are slipped back into 2015/16.

## **New Schemes Requiring Cabinet Approval**

None

## **Adult & Community Services (ACS)**

Adult & Community Services has a new re-profiled budget for 2014/15 of £10.4m, which includes £7.9m for the new Barking Leisure Centre. There are currently no variances projected.

## **Children's Services (CHS)**

Children's Services had a re-profiled budget of £26.8m, and is currently expected to exceed this budget by £350k. This relates to two schemes, which are now expected to incur spend brought forward from next year. The funding will also be brought forward to match this.

The majority of the Children's Services capital programme is for major school expansion projects, which are due for completion for the new September intake. Project Managers will continue to ensure that projects are delivered in time for these essential deadlines.

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

Environmental Services has a re-profiled budget for 2014/15 of £5.4m. Following the re-profiling exercise presented to Cabinet last month, Environmental Services schemes are currently reflecting a nil variance, with the assumption that all schemes will spend to budget. The main schemes are highways improvements and street lighting replacement. There are currently no pressures / funding issues and officers are working to ensure all external funding is drawn down from funding bodies and projects run to schedule.

## **Chief Executive (CEO)**

The Chief Executive Directorate has a re-profiled budget for 2014/15 of £9.1m. Following the re-profiling exercise to realign budgets with planned delivery, the Directorate is forecast to fully spend its capital programme. Officers are working to ensure all external funding is drawn down from funding bodies and projects run according to schedule.

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

The HRA has a re-profiled capital programme budget for 2014/15 of £90.4m. Current projections indicate a year-end outturn of £90.2m with the majority of schemes to deliver in line with the re-profiled position. The estate renewal scheme

is forecast to underspend by £200k in 2014/15 due to ongoing delays with the demolition of blocks at Gascoigne and Althorne Way.

## 2.14 **Financial Control**

At the end of October, the majority of key reconciliations have been prepared and reviewed. Where they are outstanding, an action plan has been put in place to ensure that they are completed by the end of the financial year.

## 3 **Options Appraisal**

- 3.1 The report provides a summary of the projected 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:**

Oracle monitoring reports

### **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