

CABINET

27 January 2015

Title: Budget Monitoring 2014/15 - April to November 2014 (Month 8)	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: No
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Summary <p>This report provides Cabinet with an update of the Council's revenue and capital position for the eight months to the end of November 2014, projected to the year end.</p> <p>At the end of November 2014 (Month 8), there is a projected overspend of £1.5m, predominantly on the Children's Services budget after the agreed application of the remainder of the Children's Services reserve. This is an increase of £0.2m from last month. Whilst Children's Services have reduced their forecast by £0.4m, Chief Executive's and Environment are no longer able to contain pressures amounting to £0.6m, even with the freeze on non-essential spend remaining in place.</p> <p>The total service expenditure for the full year is currently projected to be £166.8m against the budget of £165.3m. The projected year end overspend coupled with the reserve drawdown will reduce the General Fund balance to £24.6m 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 £143.2m following the inclusion of a previously agreed scheme at Barking Riverside. 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> <ul style="list-style-type: none">(i) Note the projected outturn position for 2014/15 of the Council's General Fund revenue budget at 30 November 2014, as detailed in paragraphs 2.4 to 2.10 and Appendix A of the report;(ii) Agree the service budget reallocation within Environmental Services as shown in paragraph 2.7 of the report;	

- (iii) Note the progress against the agreed 2014/15 savings at 31 November 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 November 2014, as detailed in paragraph 2.12 and Appendix C of the report;
- (vi) Agree to a loan of £300,000 to Valence Primary School, to be repaid over three years, to fund an upgrade of the school's ICT facilities as detailed in paragraph 2.13 of the report;
- (vii) Note the projected outturn position for 2014/15 of the Council's capital budget as at 30 November 2014, as detailed in paragraph 2.13 and Appendix D of the report;
- (viii) Note the revised capital budget of £143.2m following inclusion of the scheme to extend Barking Riverside Primary School in the Capital Programme for 2014/15; and
- (ix) Note the Corporate Director of Children's Services update report at Appendix E to the report on the budget pressures within the Children's Services department and support the 'next steps' set out in section 5 of Appendix E.

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 £24.6m, 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.

Council Summary 2014/15	Net Budget £000	Full year forecast at end November 2014 £000	Over/(under) spend Forecast £000
Directorate Expenditure			
Adult and Community Services	55,377	54,670	(707)
Children's Services	62,134	65,849	3,715
Housing (GF)	3,586	3,586	-
Environment	20,499	20,938	439
Chief Executive	21,332	20,958	(374)
Central Expenses	3,436	1,886	(1,550)
Total Service Expenditure	166,364	167,887	1,523
Budgeted reserve drawdown (to Central Expenses budget)	(1,044)	(1,044)	-
Total Expenditure	165,320	166,843	1,523

	Balance at 1 April 2014 £000	Forecast Balance at 31 March 2015 £000
General Fund	27,138	24,571*
Housing Revenue Account	8,736	8,736

*The forecast general fund balance includes the £1.5m 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 £1.5m for the end of the financial year, made up as follows:

- £0.4m 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;

- £1.5m underspend in the Central Expenses budget due to VAT refunds and reduced borrowing costs as a result of well managed cash flow;
- £0.4m overspend in Environment; and
- £3.7m 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 and a follow up to that is included as an appendix to this report. 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 have fed through more broadly in to the overall position since September with the overall position having improved by nearly £2m.

This report includes information on budget pressures within the Environment service as well as, within the appendix, significant reallocations of the budget for that area. This realignment will assist the monitoring of the Environment budget in the future and has much more clearly highlighted the financial challenges in the service. This budget will need to be monitored closely to identify whether the budget is ultimately sufficient to deliver Member priorities.

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.

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 November 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

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

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.

2.5 Children's Services

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	65,016	62,134	65,849
Projected over/(under)spend			3,715

Overall for 2014/15 the Service is forecasting an over spend of £3.7m. 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 further reduction of £400k from the October 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 (£800k), SEN transport (£200k) and Commissioning and Safeguarding

(£250k). 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£1m has been identified and further work continues to review these potential 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 in September 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 from the Director of Children's Services is attached at Appendix E

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

Directorate Summary	2013/14 Outturn £000	2014/15 Budget £000	2014/15 Forecast £000
Net Expenditure	22,425	20,499	20,938
Projected over/(under)spend			439

Environmental Services is forecast to overspend by £439k at the year end. The service was previously expected to outturn on budget, despite managing pressures of £2.0m. A review of parking income indicates additional risk within the service of £0.6m, bringing the total pressure to £2.6m.

The risk within Environmental Services is a combination of pressure on staffing budgets, income pressures, increased ELWA disposal costs and the under achievement of savings targets. A significant element of risk is outside the services direct control, however, an action plan is being delivered to support mitigation of £2.2m. Action includes reviewing income opportunities, utilising one off grants, holding posts vacant, ensuring recharges and income collection are up to date and maintaining spend restraint across the service. A refund of £0.2m was received in November following a review of the street lighting inventory. This will also lead to an ongoing reduction in energy expenditure. Further pressure on this position is increasingly difficult to absorb and manage.

The service has an agreed savings target of £904k, of which £434k is expected to be delivered. Under achievement of this target is due to delays in determining the future use of 2 and 90 Stour Road (£295k) and the loss of income generating assets affecting the Parking service (£175k). The service is now unable to contain this pressure and outturn within budget.

Additional income risk of £0.6m has been identified within the parking service. This is primarily due to improved payment behaviour with a larger percentage of PCN's issued being paid on time at the discounted rate.

A review of Environmental Services budgets has been undertaken to ensure an appropriate allocation consistent with current requirements and assumptions (see table below). The proposed realignment has been determined in discussion with senior service managers and agreed with the Divisional Director and Corporate Director. The total budget for the service has not changed.

Service Area	Revised Budget 2014-15	Movements between services	Re-aligned Budgets 2014-15
	£000s	£000s	£000s
Direct Services	8,488	277	8,765
Highways, Transp't & Facilities Mgt	12,725	(44)	12,681
Parking Services Road Safety	(2,852)	19	(2,833)
Building Control	67	(10)	57
Enforcement	695	(242)	453
Private Sector Housing	404	0	404
Env. Health & Trading Standards	971	0	971
Total	20,499	0	20,499

2.8 Housing General Fund

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

Current projections indicate a breakeven position in 2014/15. Reduced spend on Bed and Breakfast is expected to offset unbudgeted 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 80 Bed and Breakfast placements as at the end of November 2014 which is higher than the September position of 61. Placements over the first 8 months of the year have typically been within budget assumptions. A continuation of this trend over the remainder of the year should enable the service to outturn within budget, however, the increase in November demonstrates the volatility to the position. 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 8 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. Targeted intervention and additional collection resource is being deployed to further improve arrears management and as a result overall arrears have reduced by £11k since October 2014. The benefit from reduced Bed and Breakfast placements is currently offsetting the need for greater bad debt provision. 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

Directorate Summary	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	18,475	21,332	20,958
Projected over(under)spend			(374)

The Chief Executive department at this stage is projecting a year end underspend of £374k. The underspend is mainly due to vacancies across the department and services making transitional arrangements to enable the early delivery of 2015/16 savings. The forecast underspend has, however, decreased by £110k from last month's position. The change is due to a decline in income from citizenship ceremonies, where in-year demand has reduced and small changes across a range of other departmental budgets.

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

2.10 Central Expenses

Directorate Summary	2013/14 Outturn	2014/15 Budget	2014/15 Forecast
	£000	£000	£000
Net Expenditure	4,382	2,392	842
Projected over(under)spend			(1,550)

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. Whilst Council Tax collection levels are holding, as noted above, there may be pressure on temporary accommodation budgets due to the increase in former tenant arrears..

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.

Directorate Summary of Savings Targets	Target £000	Forecast £000	Shortfall £000
Adult and Community Services	2,438	2,398	40
Children's Services	2,964	2,964	-
Housing and Environment	1,129	659	470
Chief Executive	1,219	1,219	-
Central Expenses	971	971	-
Total	8,721	8,211	510

2.12 Housing Revenue Account (HRA)

The HRA is currently forecast to breakeven.

Income

Income is expected to overachieve by £418k. Pressure of £196k 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 £418k. Expenditure pressures within the caretaking service, repairs and maintenance service and the delayed delivery of savings provide the main risks, however, this is expected to be mitigated through under spending budgets and the one off receipt of recovered water and sewerage overpayments on demolished blocks.

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 Reside for the provision of housing landlord services and repairs and maintenance services due to higher than expected void levels.

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 (2014-15) forecast against the budget as at the end of November 2014 is as follows:

	2014/15 Current Budget £'000	Actual Spend to Date £'000	2014/15 Forecast £'000	Variance against Budget £'000
ACS	10,451	7,572	10,451	-
CHS	27,632	17,432	27,682	50
H&E	5,492	2,361	5,492	-
CEO	9,139	3,878	9,139	-
Subtotal - GF	52,714	31,242	52,764	50
HRA	90,439	46,872	83,199	(7,240)
Total	143,153	78,114	135,963	(7,190)

The detail for schemes is in Appendix D.

Summary

The 2014/15 capital programme stands at a revised budget of £143.1m. Directorates are currently anticipating slippage against this budget by £7.2m. Just over half of the annual budget has been spent to date, and with four months of the financial year remaining an accelerated level of spend would need to be incurred in order to meet this forecast.

New Capital Schemes

Included within the capital programme this month is an additional Children's Services budget for Barking Riverside City Farm Primary School, as originally approved by Cabinet at its meeting on 30 June (recommendation 7, section 8). This has a total budget of £5.5m, which is profiled £750k within 2014/15 (and included within the figures above), and £4.75m within 2015/16.

Adult & Community Services (ACS)

Adult & Community Services has a current budget for 2014/15 of £10.4m, and the programme overall is expected to deliver within the total capital allocation. Within this, the Barking Park project is expected to overspend by approximately £44k, as a result of a final claim from LDA Design for additional works incurred by them due to the delays on the project. It is currently anticipated that this overspend can be offset by a corresponding underspend on the Mayesbrook Park project, so that the programme balances overall.

Children's Services (CHS)

Children's Services has a current budget of £27.6m, and is currently expected to exceed this budget by £50k overall. This is a net position and results from overspends (of £100 - £150k) against the Richard Alibon, Manor Infants, and John Perry expansions; and underspends of £50k and £250k against Manor Longbridge and Jo Richardson expansions respectively.

Alongside the main Children's Services capital programme, Valence Primary School are requesting a loan of £300k, to be used to fully upgrade the ICT within the school for the children's learning and development and to support pupil growth. The loan would be repaid over 3 years, plus interest. The rate of interest will be linked directly to the interest rates set by the Public Works Loan Board (PWLB). The school has balances of only £30k, as reported in 2013/14 and in order for the School to repay this loan, the school is expanding with primary numbers growth and will receive additional formula funding for an additional 127 children based upon the 2015/16 funding formula. The school will be in a position to repay the loan over a 3 year period.

Housing & Environment (H&E)

Environmental Services has a re-profiled budget for 2014/15 of £5.4m; and all schemes are currently reflecting a nil variance. 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 and the programme is expected to spend to budget overall. Within Asset Strategy, the scheme for Automatic Meter Reading Equipment is expected to underspend by £13k this year, which will be diverted into the Corporate Accommodation Strategy scheme. 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 reprofiled capital programme budget for 2014/15 of £90.4m and current projections indicate a year-end outturn of £83.2m.

Estate Renewal

This budget is showing slippage of £200k due to uncertainties around the completion of the demolition of Gascoigne and Althorne way buildings this financial year. Although this could be mitigated by extra leasehold buy back completions.

New Build

This budget is showing a variance of £1.192m. This is primarily due to slippage of £1.345m across the following schemes, offset by a small overspend on the Council Housing Phase 3 scheme:

- Ilchester (£400k) and North Street (£200k), both due to the recent conclusion of the Member and Resident consultation;
- Marks Gates (£400k), due to contractor delays; and
- Wood Lane (£130k) and Abbey Road (£215k), both due to retention payments now expected to be paid in 2015/16.

Investment in stock

This budget is showing an overall variance of £5.847m, as a result of slippage of £6.649m across a number of schemes, combined with accelerated spend from 15-16 of £802k across the Decent Homes South and Central Heating Schemes. The slippages include Decent Homes North (£3.179m); Decent Homes Sheltered (£1.038m); Decent Homes Bocks (£2.132m); and Fire Safety Works (£300k). The delays relate to issues around tender processes and commercial and contractor negotiations.

2.14 Financial Control

At the end of November, 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
- **Appendix E** – Update from Corporate Director of Children's Services