

## CABINET

2 June 2015

<b>Title:</b> Council's Provisional Revenue And Capital Outturn 2014/15	
<b>Report of the Cabinet Member for Finance</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Summary:</b> <p>The Council's revenue outturn (subject to final accounting entries) is a net spend over budget of £0.07m against a net revenue budget of £165.3m (0.04%). The final position is provisional pending the full closure of the Council's accounts, as the Statement of Accounts is to be drafted and then subject to external audit.</p> <p>The 2014/15 net spend above budget of £0.07m, together with the budgeted use of £1m of balances has resulted in the GF balance decreasing from £27.1m to £26.03m, representing a very slight deterioration in the Council's financial position.</p> <p>This balance is still well above the £15m General Fund balance target identified in the report to Assembly in February 2014 on the Budget for 2014/15 by the Chief Finance Officer.</p> <p>The revenue outturn figures have been calculated after taking into account roll forward requests contained in Appendix D of the report.</p> <p>The Housing Revenue Account (HRA) broke even and the HRA balance (which is ring-fenced) remains at £8.7m as at 31 March 2015.</p> <p>Capital spend of £128.9m was incurred in 2014/15 against the revised capital budget of £143.1m. Underspends on capital projects are requested to be rolled forward and are included in Appendix E of the report.</p>	
<b>Recommendation(s)</b> <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none"><li>(i) Note the provisional outturn position for 2014/15 of the Council's revenue budget as detailed in paragraphs 2.1 to 2.10 of this report and in Appendix A;</li><li>(ii) Note the provisional outturn against the 2014/15 savings targets in paragraph 2.11 of this report and in Appendix B;</li></ul>	

- (iii) Note the provisional outturn position for the HRA as detailed in paragraph 2.7 of the report and in Appendix C and the transfer of the commercial properties to the General Fund, as approved by the Council's external auditors;
- (iv) Approve the requests to roll forward revenue budgets into 2015/16 and the resulting budget amendments contained in appendix D of the report;
- (v) Note the provisional outturn position for 2014/15 of the Council's capital budget as detailed in paragraph 2.12 of the report and Appendices E and F;
- (vi) Approve the requests to roll forward slippage and re-profiled spend in capital projects to 2015/16 as contained in Appendix E; and
- (vii) Consider whether an allocation should be made to fund the external evaluation of the Council's office accommodation report as requested by the Public Accounts and Audit Select Committee, as set out in paragraph 2.13 of the report.

#### **Reason(s)**

As a matter of good financial practice, the Cabinet should be informed of the final outturn and performance of the Council's Revenue and Capital resources. Knowledge of the variances from planned budgets and effective financial management supports priority of "growing the borough" by enabling Members in making sound decisions.

## **1 Introduction and Background**

- 1.1 This report provides a summary of the Council's General Fund (GF), Housing Revenue Account (HRA) and capital provisional outturn positions for 2014/15. Good financial management in the face of a number of budget pressures has meant that the General Fund balance has remained above forecast at £26.03m. This position includes the achievement of £8.2m of in-year savings targets that represented a significant challenge for the Council.
- 1.2 For comparison with 2013/14, the Final Outturn report to Cabinet on 30 June 2014 reported that, as at 31 March 2014, General Fund balances stood at £27.1m. This was an increase of £9.7m on the position at 31 March 2013.
- 1.3 It is important that the Council monitors its revenue and capital budgets regularly to ensure good financial management. This involves monitoring the Council's financial results on a monthly basis through briefings to the Cabinet Member for Finance and monthly monitoring reports to Cabinet. This ensures Members are regularly updated on the Council's overall financial position and enables the Cabinet to make sound financial and operational decisions.
- 1.4 This report is based upon the core information contained in the Oracle general ledger system supplemented by examination of budgets between the budget holders and the relevant Finance teams. In addition, there is an extensive capital monitoring process to ensure capital outcomes are met. The position in this report may be subject to change as the Council finalises the entries required to produce the statutory Statement of Accounts, and that Statement will be subject to review by external audit over the summer.

## 2 Overall Outturn Position

- 2.1 The Directorate revenue outturn is a net spend above budget of £0.07m at the end of the financial year 2014/15. This has resulted in the Council's General Fund (GF) balance remaining above the target of £15.0m. The Chief Finance Officer has a responsibility under statute to ensure that the Council maintains appropriate balances.
- 2.2 The last Budget Monitoring Report for 2014/15 was presented to Cabinet on 24 March 2015 covering the period April 2014 to January 2015. It projected an overall overspend of £1.3m, which combined with a budgeted drawdown of £1m from reserves resulted in a projected reduction of the General Fund balance from £27.1m to £24.8m as at 31 March 2015. The reduction in the projected overspend is due to the introduction of the in-year spend freezes applied across the Council.

In the report to Assembly regarding the setting of the 2014/15 annual budget and Council Tax, the Chief Finance Officer, after consideration of the factors outlined in the CIPFA guidance on Local Authority Reserves and Balances 2003, set a target GF reserves level of £15.0m. The General Fund balance at 31 March 2014 was £27.1m and the current balance for the end of the financial year is £26.03m.

The outturn position for 2014/15 across the Council for the General Fund is shown in the table below.

<b>Council Summary</b>	<b>Net Budget £'000</b>	<b>Provisional Outturn 2014/15 £'000</b>	<b>Over/(under) Budget £'000</b>
<u>Directorate Expenditure</u>			
Adult and Community Services	55,308	54,025	(1,283)
Children's Services	62,467	67,359	4,892
Housing	3,578	3,417	(161)
Environment	19,744	19,687	(57)
Chief Executive	19,245	18,716	(529)
Central Expenses	4,978	2,186	(2,792)
<b>Total Service Expenditure</b>	<b>165,320</b>	<b>165,390</b>	<b>70</b>

The GF outturn is shown by Service in Appendix A, after taking into account roll forwards requested in Appendix D of the report.

The report to March Cabinet showed a forecast overspend of £1.331m. Whilst Children's Services have recorded an increased overspend, other directorates recorded more favourable outturns and the council-wide position is only slightly above budget, a variance of less than 1%. Of particular note are the outturns for Adult and Community Services (£0.571m improvement) due to the early implementation of 2015/16 savings and Central Expenses (£1.241m improvement) due to increased commission on the agency contract and reduced contributions to bad debt provisions for Council Tax and temporary accommodation which had been flagged in the narrative of the most recent reports.

The Council's net budget is unchanged since the last report to Cabinet, but there have been changes between services primarily due to reserve transfer adjustments. These changes do not impact on the services' controllable budgets.

At the 31 March 2015, the HRA broke even, leaving the HRA reserve at £8.7m.

	<b>Balance 1 April 2014</b>	<b>Balance 31 March 2015</b>	<b>Target Balance 31 March 2015</b>
	£'000	£'000	£'000
General Fund	27,138	26,024	15,000
Housing Revenue Account	8,736	8,736	8,269

The HRA outturn is shown by statutory categories in Appendix C.

### 2.3 Directorate Performance Summaries

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

### 2.4 Adult and Community Services

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	£'000	£'000	£'000	£'000	%
Net expenditure	55,191	55,308	54,025	(1,283)	(2.3)

The Adult and Community Services directorate achieved an overall underspend of £1.283m for 2014/15 as a result of the council-wide spending restraints introduced during the year and a review of funding options for specific services. Of the overall underspend, £0.714m reflects the decision to charge Substance Misuse and Drugs and Alcohol Abuse Treatment (DAAT) services as well as sports development to the Public Health grant. The Public Health grant, which contributes towards the Council's preventative agenda by promoting healthy outcomes for adults and children was £14.213m for 2014/15 and at year-end there was an underspend of £978k, which it is requested be carried forward into 2015/16.

Other savings were achieved by the early implementation of agreed savings for 2015/16, especially within Commissioning and Partnerships.

The net budget included 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 agreed by the Health and Wellbeing Board (H&WBB) in March 2014.

A savings target of £2.438m was built into the 2014/15 budget; these savings are detailed in appendix B below and were almost fully achieved, the sole exception being an ambitious income target for heritage venues.

## 2.5 Children's Services

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Net expenditure	65,016	62,467	67,359	4,892	7.8

Overall the provisional outturn for the service is an overspend of £4.892m, an increase of £945k from the position reported to Cabinet in March. This figure takes into account the use of the Children's Services reserve of £1.500m. This increase is despite cross Directorate work to reduce spend, including the spending freeze and giving up all potential carry forwards. The overspend is entirely within the Complex Needs and Social Care division. The main reasons for the increased overspend are an increase in the number of placements, higher No Recourse to Public Fund and Unaccompanied Asylum Seeker costs, and the continued need to employ a higher than anticipated number of agency personnel. It should be noted that a priority initiative to increase the number of permanently employed staff is currently underway.

In recognition of the demographic pressures affecting Children's services, £3m growth will be applied to the Complex Needs budget in 2015/16.

### **Dedicated School Grant (DSG)**

The DSG is a ring fenced grant to support the education of school aged pupils within the borough. In 2014/15 a DSG allocation of £228.0m was received. Final closure of the schools accounts is underway and the figure shown in Appendix A for allocation between services may change. However, there will be no effect on the overall figure for Children's Services and the Council's overall net spend, as any surplus or deficit will be transferred or charged to the DSG reserve.

## 2.6 Housing General Fund

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
General Fund - net expenditure	2,530	3,578	3,417	(161)	(4.5)

### **Housing General Fund**

The final outturn shows an underspend position of £0.161m. The main risk to the position throughout the year has been the level of temporary accommodation placements, particularly the numbers within Bed and Breakfast, and the level of arrears. Spend on Bed and Breakfast accommodation for the year was below expectation and has more than offset unbudgeted pressures within the service.

There were 51 Bed and Breakfast placements at the end of March 2015 bringing the average for the year to 71. Placements typically fluctuate but the service has

actively worked to minimise Bed and Breakfast placements by utilising decanted stock and incentivising private sector landlords.

The status of arrears has moved over the year with a greater proportion now categorised as former tenants. Total arrears have increased by £0.297m. Former tenant arrears require a larger bad debt provision due to the reduced likelihood of collection. Targeted intervention and additional collection resource have been deployed to further improve arrears management.

The benefit from reduced Bed and Breakfast placements has more than offset the need for a greater bad debt provision and realised an underspend in 2014/15 . Bed and Breakfast placements and movements in arrears continue to be closely monitored in 2015/16 as does the impact of welfare reform.

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

The HRA has delivered a breakeven position with HRA balances remaining at £8.7m

### ***Income***

Income underachieved budget by £484k. Income streams that exceeded target included leasehold service charge income, commission on water charges, additional rental income from the use of decanted stock for temporary accommodation and additional interest received on HRA cash balances. Pressure on garage income due to higher than expected voids was managed within this position. The transfer of the commercial shops portfolio to the General Fund took place in March 2015 resulting in a reduction in income of £1.5m, as agreed by the Council's external auditors. Leaseholder service charges are initially based on estimated cost and subsequently revised in line with the previous year's actual cost.

### ***Expenditure***

Expenditure underspent by £484k. This is primarily due to pressure from the delayed delivery of savings and pressure within the repairs and maintenance service being offset by a lower than budgeted bad debt provision requirement.

The service achieved delivery of £4.8m of the £6.1m saving requirement resulting in a shortfall of £1.3m. This is primarily due to delays in implementing restructures, the partial delivery from an ongoing review of communal energy billing and the lower than expected income from Reside for the provision of housing landlord services and repairs and maintenance services.

The position includes the second payment required to equalise TUPE transferred R&M staff within the Council's pension fund. Confirmation of the amount required was provided through actuarial valuation and included in the HRA Business Plan. This is to be funded over a 3 year period 2013/14 to 2015/16.

The outturn includes a revenue contribution to capital of £35.3m.

## 2.8 Environment

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Net expenditure	22,425	19,744	19,687	(57)	(0.3)

The Environmental Services outturn for 2014/15 provides an underspend of £0.057m. This assumes a £0.047m DEFRA flood risk grant roll forward and establishing a £0.050m bad winter weather reserve to mitigate against future additional costs associated with bad winter weather.

The position represents a £0.195m movement from the position previously reported primarily as a result of additional income received and the impact of spend restraints within the service. Over the course of the year the service has absorbed pressures of £1.3m primarily due to the under achievement of savings targets and pressure on income. A significant element of these pressures were outside of the services direct control, however, the delivery of mitigating action has enabled the overall position to be managed.

A savings target of £1.129m was built into the 2014/15 budget, however, delivery under achieved by £0.470m. This was mainly as a result of delays in determining the future use of 2 and 90 Stour Road (£0.295m) and the loss of income generating assets affecting the Parking service alongside improved payment behaviour (£0.175m). Parking income levels were impacted due to a larger percentage of PCN's being paid on time at the discounted rate suggesting greater compliance.

Mitigating actions put in place to manage pressures included utilising one off grants, benefiting from a refund received for street lighting electricity, holding posts vacant, ensuring recharges and income collection were up to date and maintaining expenditure restraint across the service.

## 2.9 Chief Executive

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Net expenditure	18,196	19,245	18,716	(529)	(2.8)

The Chief Executive department has underspent against its budget by £0.529m. The position incorporates a budget roll forward of £0.150m in respect of the Carbon Reduction Commitment. The outturn represents an increase in the underspend of £0.142m compared to the previously reported position mainly due to the impact of spend restraint.

The department managed pressures against income targets as a result of the under-recovery of school buybacks, a reduction in citizenship ceremony income and the under-recovery of the court cost income. A savings target of £1.2m has been achieved.

The outturn position is primarily due to savings from treasury management contracts, tighter controls on expenditure against supplies budgets as a result of the expenditure freeze, an underspend against the Members allowance budget due to the employers contribution to the pension scheme for Councillor's no longer being required and vacancies being held across the department to support the early delivery of 2015/16 savings.

## 2.10 Central Expenses

	<b>Outturn 2013/14</b>	<b>Budget 2014/15</b>	<b>Provisional Outturn 2014/15</b>	<b>Variance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Net expenditure	4,382	4,978	2,186	(2,792)	(56.0)

Significant savings were achieved against the budget for interest payments, a refund of previously paid VAT and the centrally held contingency. The outturn position includes a budgeted contribution to reserves of £1.0m, to fund projects that will give future revenue savings and in addition there is £0.5m contributed towards refurbishment of the Broadway Theatre in 2015/16. As mentioned in paragraph 2.7, the commercial shops portfolio previously held in the HRA was transferred to the General Fund in 2014/15 resulting in additional income of £1.5m for the General Fund. After deducting running costs, a net figure of £1m was available and has been used towards financing the capital programme to enable ongoing revenue savings in the future.

## 2.11 2014/15 In-Year Savings Targets

The delivery of the 2014/15 budget was dependent on meeting a savings target of £8.7m. Directorate outturns are summarised in the table below.

<b>Directorate Summary of Savings Targets</b>	<b>Target £'000</b>	<b>Outturn £'000</b>	<b>Shortfall £'000</b>
Adult and Community Services	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>

The reason for any savings shortfalls have been included in the Directorate outturns set out in sections 2.4 to 2.10 above and it should be noted that all shortfalls have been managed within existing budgets. A detailed breakdown of savings is provided in Appendix B.

## 2.12 Capital Programme

The Capital Programme had a £14.3m net spend below budget due largely to slippage on various schemes. The table below shows the summary position:



<b>Directorate Summary of Capital Expenditure</b>	<b>Revised Budget £'000</b>	<b>Outturn 2014/15 £'000</b>	<b>Variance £'000</b>
Adult & Community Services	10,451	9,487	(964)
Children's Services	27,632	29,953	2,321
Housing & Environment	5,492	3,887	(1,605)
Chief Executive's	9,139	6,995	(2,144)
<b>Sub-total - GF</b>	<b>52,714</b>	<b>50,322</b>	<b>(2,392)</b>
HRA	90,439	78,544	(11,895)
<b>Total</b>	<b>143,153</b>	<b>128,866</b>	<b>(14,287)</b>

A new build housing scheme at Abbey Road commenced in 2014/15, funded by borrowing from the European Investment Bank. The scheme will provide 138 houses plus commercial space. To take advantage of the external funding, the scheme has been accounted for outside of the HRA. The total value of the scheme is £22.3m and expenditure of £16.9m was incurred in 2014/15. In 2015/16 it will be incorporated into the main GF capital programme.

A detailed capital outturn by scheme together with roll forward requests is included in Appendix E. The appendix also shows the budgets for capital projects in 2015/16.

Major scheme variances by area are summarised below, with more detailed explanations for variances over £0.100m given in appendix F:

#### **Adult & Community Services**

- Barking Leisure Centre - (£0.719m) underspend

#### **Children's Services**

- Schools - £1.307m overspend
- Other schemes - £1.013m overspend

#### **Housing & Environment**

- Housing Revenue Account - (£11.895m) underspend
- Environmental Services – (£1.605m) underspend

#### **Chief Executive's**

- Asset Strategy – (£0.568m) underspend
- ICT - (£0.875m) underspend
- Regeneration - (£0.700m) underspend

### **2.13 Civic Centre petition**

Whilst this report is essentially to advise Members of the provisional outturn for the 2014/15 revenue and capital budgets, this section relates to a reference to Cabinet from the Public Accounts & Audit Select Committee (PAASC) to consider a request for funding.

At its meeting on 16 December 2014 (Minute 78 refers), Cabinet agreed a proposal to rationalise the Council's corporate office portfolio in order to make budget savings. As a result of that decision, the Council was presented with a petition

which was considered by PAASC on 25 March 2015. The petition called upon the Council to repeal the decision to convert the Civic Centre into a school, on the basis the current decision endangered the quality and accessibility of good public services for the residents of Dagenham.

PAASC queried the financial evaluation of the options in the Cabinet report so, before the committee could reach a decision, requested that an independent external evaluation be carried out of the costs and valuations involved in each option, including those not originally shortlisted.

As there is no budget available to do this work the Cabinet is being asked to consider whether to support the Select Committee's proposal and provide the necessary funding to commission the evaluation. An allocation from the Council's reserves would need to be made to cover the cost.

## **2.14 Financial Control**

At the end of 2014/15 all key reconciliations have been prepared and reviewed. There were 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 report has been circulated to appropriate Corporate Directors for review and comment on the elements relating to their Directorates. Individual Directorate elements will be subject to scrutiny and discussion at their respective Directorate Management Team meetings. This will occur between production of this report and the Cabinet meeting.

## **5 Financial Implications**

- 5.1 This report details the financial position of the Council.

## **6 Legal Issues**

- 6.1 There are no legal implications.

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

Budget Framework 2014/15; Assembly 19 February 2014.

## **List of Appendices:**

- Appendix A – General Fund Outturn
- Appendix B – Savings Targets Outturn
- Appendix C – Housing Revenue Account Outturn
- Appendix D – Revenue Roll Forward Requests
- Appendix E – Capital Outturn
- Appendix F – Explanations for Variances on Capital Projects