Meeting:	**Executive**
Date:	**7 December 2010**
Subject:	**Quarter 2 Budget Management Report 2010**
Report of:	**Cllr Maurice Jones, Portfolio Holder for Finance, Governance and People**

Summary: The report provides information on the spend to date against approved profiled budgets and reports on the forecast outturn position as at 31 March 2011.

Advising Officer:	Richard Ellis, Director of Customer and Shared Services
Contact Officer:	Matt Bowmer, Assistant Director Finance
Public/Exempt:	Public
Wards Affected:	All
Function of:	Executive
Key Decision	Yes
Reason for urgency/ exemption from call-in (if appropriate)	N/A

CORPORATE IMPLICATIONS

Council Priorities:

Sound financial management contributes to the Council's value for money and enables the Council to successfully deliver its priorities. The recommendations will contribute indirectly to all 5 Council priorities

Financial:

The financial implications are set out in the report

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

Any staffing reductions as a result of compensatory efficiencies will be carried out in accordance with the Council's Managing Change Policy and in consultation with the Trades Unions.

Equalities/Human Rights:

Equality Impact Assessments were undertaken prior to the allocation of the 2010/11 budgets and each Directorate was advised of significant equality implications relating to their budget proposals.

Community Safety:

None

Sustainability:

None

Summary of Overview and Scrutiny Comments:

- The report will be presented to Central and Customer Services Overview and Scrutiny Committee on 13 December 2010.

RECOMMENDATION(S):

That the Executive:

(a) Note the improved forecast outturn position of £3.251M over budget which is a reduction of £2.685M when compared to the Quarter one report

(b) Note the £1.390M compensatory efficiencies

(c) Approve the use of £0.525M of contingency as per paragraph 2.33

(d) Approve the proposed use of contingency to fund estimated Appendix E costs.

(e) Note that management action is being taken to curb discretionary spend in the remainder of the financial year, to avoid the overspend that is otherwise projected to occur.

Reason for Recommendation(s):	*To facilitate effective financial management and planning*

Executive Summary

This report sets out the spend to date position and forecast year end financial position of the Council for 2010/11 based on the information available as at 30 September 2010. Latest forecasts indicate a significant improvement since the last quarter report.

The Council is experiencing a number of increased service demands across the Directorates including:

- a 7% increase in community based care packages for the 65+ age group;
- increased numbers of children requiring social care interventions; and
- a reduction in income and increased demands on the benefits services as a consequence of recessionary pressures.

These pressures are not unique to Central Bedfordshire and are being experienced across the public sector as a whole and as such are not without their financial challenges.

Additionally, the Coalition Government have reduced Local Government funding in year by cutting Area Based Grants. Central Bedfordshire's share of these reductions is over £2.0M and is an additional pressure on this Council in delivering a balanced budget.

As a consequence the latest revenue pressures forecast until the end of the financial year are reported at £3.251M over budget. This forecast assumes no further management action to be taken and is based on expected and known service commitments. Whilst this is a significant improvement of £2.685M on the quarter 1 position and is evidence that the current agreed management actions and compensatory savings are having the desired impact, further savings are still required to bring a fully balanced budget position at year end, hence the recommendation to curb discretionary spend for the remainder of the year.

The year to date favourable variance cannot be assumed to persist into the second half of the financial year as grants and income have been received earlier than planned and unspent contingency is being held to offset costs that are unlikely to be fully reflected until later in the financial year.

Improved capital monitoring has been provided by setting out year to date spend against the approved budget profile and the forecast year end position. The capital reporting indicates that the capital programme is behind programme by £6.315M as at September although forecast to be largely on budget by the end of the year.

1. **INTRODUCTION**

1.1 The report shows the mid-year budget position for 2010/11. It sets out spend to date against the approved profiled budget and the forecast financial outturn position based on the information available as at the end of September 2010. Despite increased service demands on some services and in year budget reductions forecast pressures are being actively managed. This report shows a £2.685M reduction in the forecast pressures since the quarter one report.

1.2 The 2010/11 revenue budget of £177.025M is predicated on the achievement of £12.076M savings. Of these, £11.666M is on track to be achieved. There is a consequent shortfall of £0.410M which is subject to management action to achieve the total. Compensatory savings are referred to in section 2.3.

1.3 Following the mid year review the revised capital program is provided which shows the programme to be £6.315M behind schedule as at September.

2. REVENUE POSITION

2.1 The actual to date position is below budget by £0.522M. This is largely due to more income and Government grants being received earlier in the first half year than originally expected, unspent contingency funds and capital financing charges being less than budget for the first half of the year.

2.2 The current revenue forecast shows pressures identified as at the end of the second quarter to be £3.251M which takes into account the expected expenditure commitments that will occur in the second half of the year. Continued work will be undertaken to further manage these pressures, hence the recommendation to curb discretionary spend for the remainder of the financial year in order to deliver a balanced budget position at year end.

2.3 The year end forecast position includes £1.390M compensatory efficiency savings. This builds on the £0.366M shown in the quarter 1 report. The thermometer shown at Appendix A3 provides a summary of progress in achieving the savings together with a table of Directorate savings still 'at risk'. Directors are continuing to identify compensatory savings where the original savings are at risk. Where these compensatory savings are proposed to be a permanent replacement they are shown in Appendix A4. These proposals have been approved by the Portfolio Holder for Finance, Governance and People in consultation with the relevant Directors, Portfolio Holders and the Chief Finance Officer as previously approved by the Executive.

2.4 In addition, budgets have been reduced in line with the Coalition Government reductions as shown at Appendix A5. These are on track to be delivered.

2.5 The following table shows a summary revenue position by Directorate. The full breakdown is available at Appendix A1. Appendix A2 shows the forecast changes since quarter 1.

2.6 Appendix A6 shows the spending trends in graphical form and the variances for the current year compared to the same time last year. This indicates that the spend to date is lower than at the same time last year. This supports the forecast outturn position which is also lower than the same time in 2009/10.

2.7 <u>Table A: Revenue position by Directorate - </u> Paragraphs 2.8 to 2.34 provides further commentary

Directorate	**Approved Budget £000**	**Forecast Outturn after use of Earmarked reserves £000**	**Variance to Date (-) under/ overspend £000**	**Forecast Outturn Variance(-) under/ overspend £000**
SCHH	50,967	51,541	152	574
CS	34,366	35,765	407	1,399
SC	47,297	47,220	-1,230	-77
C&SS	22,041	23,407	584	1,366
OCE	4,416	4,326	-92	-90
Contingency and Reserves	4,540	4,540	-677	0
Corporate Costs	15,437	15,516	-160	79
Schools	-2,038	-2,038	494	0
Total	**177,026**	**180,277**	**-522**	**3,251**

<u>Social Care, Health and Housing</u>

2.8 Central Bedfordshire has seen demographic increases of 2.4% for the over 65 years age group and 4.3% on the over 85 years age group over the 2009/10 financial year. People living longer can mean that they are more likely to have care and support needs some of which are complex and potentially result in higher cost care packages required to support them.

2.9 **For older people**, pressures on care packages are projecting to be £1.468M over budget. Nursing home care packages are projected to be under spent but both residential and domiciliary care packages are projecting large over spends. This is not surprising as there has been a net increase of 7% in the number of older people being supported through home care services in addition to a 4% increase in the average weekly care package cost. During the budget setting process for 2010/11 it was not possible to make budget available to deal with the potential pressure around the number of over 65 year olds in the community demographics.

2.10 **For adults with a learning disability** there are increased care costs over and above the pressure identified and these must be included to the budget for 2010/11. These arise from:

- the impact of an increasing number of young people moving from Children's Services to Adult Social Care and their care package costs was in excess of what was forecast as the budget was being set;
- the emergency closure of an in-house supported living and residential respite unit; and
- additional charges for cross-boundary services.

Taken together these pressures are projecting a forecast overspend of £0.570M.

2.11 However, the work around the Personalisation agenda is beginning to reap benefits and efficiencies are already being realised through the re-ablement service which is mitigating the effect of the pressures highlighted above.

2.12 Further management actions are being taken to tackle the highest cost care packages and these should begin to have the effect of reducing these costs in the second half of this financial year.

2.13 **For Housing** the main pressure has come in the form of an increasing number of applications to the homelessness service. This increase is manageable but if the economic downturn continues this may result in future pressures that cannot be contained.

2.14 The Council has also been made aware of a national Care Provider of care homes for adults with a learning disability that is in the process of deregistering its care homes. The Ordinary Residence Rules mean that funding would shift from the current host councils who are responsible for funding care home care to the local host Council if people take up tenancy. The potential impact for Central Bedfordshire is that there may be up to 37 people who might require care packages to be funded by this Council. This is potential expenditure that has not been budgeted for and whilst it is likely that a number of adults will require support in this financial year, the full impact of the proposed service change will be felt over the next 2 to 3 years.

2.15 The full year forecast position is £0.574M over budget which is an improvement on the position of £0.824M presented in quarter 1.

Children’s Services

2.16 There are pressures relating to the number of children requiring social care intervention and in out of authority placements for children with special educational needs. Savings in the PRU remain at risk and are subject to the on-going re-commissioning process. This process will take account of planned savings and will also seek to improve the quality of service delivery.

2.17 The ongoing pressures in Safeguarding and Children in Care relating to the increased numbers amount to circa £1M. This is a budget that is needs led and on-going modelling is taking place to provide better forecasting.

2.18 Management action continues to be taken to address overspend in the special educational needs budgets. This includes freezing discretionary spend and challenging high cost pupil placements. At their September meeting the School Forum agreed to contribute £0.35M in 2010/11 from the Special Educational Needs Contingency budget to fund the pressure on out of authority placements.

2.19 Children’s Services have reduce budgets by £1.172M in line with the Coalition Government reductions and the current forecasts position is these in year cuts will be achieved. In those instances where schools received funding from the reduced ABG grants - schools have now been invoiced the 24%, being the pro rata cut, to enable recovery of the funds and "sharing of pain". Subject to all the staffing proposals in the 90 day consultation Children’s Services will be able to absorb most of the full year effect but this will not be confirmed until the consultation ends on the 13 December.

2.20 The Government has indicated that it may review and reduce the Asylum Seekers Grant. At the time of writing notification is awaited. The estimated risk is in the order of £240k.

2.21 In year savings will be achieved in the Music Service against the Music Standards Fund (MSF). The future of this fund is subject to a national review “The Henley Review” which closed its call for evidence at the end of October 2010. The date of the outcome is not known. Management actions are ongoing to reshape the future of the Music Service and consultation on some posts at risk is on-going.

2.22 The planned children’s services staffing reorganisation is subject to 90 day consultation, ending on 13th December 2010 although there is a considerable lead time on these savings.

2.23 Budget pressures are on going for PFI and this relates to a budget build shortfall.

2.24 The full year forecast position has improved by £0.964M since the last quarter and is now forecast at £1.40M over budget.

Sustainable Communities

2.25 This is a very diverse directorate, with many services provided through private sector contractors, and a wide variety of income and expenditure streams. Each operational group under the control of the Assistant Directors has managed a range of pressures bringing their year-end forecasts below or close to budget. Overall, the Directorate forecast is on budget at year-end.

2.26 The planned savings for 2010/11 of £3.168M are forecast be achieved by year-end, with more than half already delivered.

2.27 As a result of the Coalition Government's emergency budget additional in-year savings have had to be achieved. £0.376M revenue has been saved by ceasing the free swimming service to under 16 and over 60 year olds and reducing work on Community Safety and Road Safety. The loss of an expected £1.4M Housing and Planning Delivery Grant has been mitigated by increased Planning Fee income, planned use of reserves and other management action. The net result remains the loss from the Council's General Fund of this amount which could otherwise have been applied to other corporate pressures.

2.28 Multiple staffing re-organisations are underway to reduce expenditure with varying completion dates. All are on target.

2.29 The full year forecast position has improved by £1.125M since the last quarter and is now forecast at £0.078M under budget.

Customer and Shared Services

2.30 The full year forecast position following planned use of reserves identifies pressures of £1.336M which is a reduction of £0.235M since the first quarter report and is indicative of the management actions to reduce expenditure wherever possible.

2.31 The forecast variance are largely unchanged since the last report and are for reasons within:

- AD Customers & Systems where there are staffing and contractor cost pressures, and additional IT support and maintenance costs;
- AD Finance in staff cost pressures, as a result of maternity cover, restructuring delays and salary protection;
- AD Assets where income levels are proving difficult to achieve due to recessionary pressures; and
- AD People where pressures are being forecast, due to the loss of Transitional funding from 2009/10 and within Head of Legal & Democratic due to a reduction in income together with the need for use of specialist agency staff.

Office of the Chief Executive

2.32 The full year forecast position is £0.090M under budget and incorporates planned contributions of £0.313M from reserves. Pressures on supplies and services are being offset by staff vacancies which are assumed to remain until the end of the financial year.

Contingency and Reserves

2.33 There have been a number of issues identified as appropriate calls on contingency, totalling £0.525M. These are: £150k to cover the costs of property disposals, £35k for the residual PFI budget shortfall and £240k for the student awards SLA. It is recommended the Executive approve these calls. These calls will not have any impact on the overall outturn position as the contingency is forecast to be fully used.

Corporate Costs

2.34 The £0.79M forecast overspend is due to the insufficient budget provision for Members' costs. This includes costs for Members' ICT allowances.

Other Financial Issues

2.35 As reported in the last quarter report, "Appendix E" costs in respect of the Your Space Project are an area of corporate risk that has yet to be fully included in the forecast outturn. Actual costs began to be incurred from the end of July onwards and have been estimated at £0.700M. It is therefore proposed that £0.700M of contingency is held to fund these costs. As the contingency budget is forecast to be fully utilised, this will not impact on the overall forecast outturn.

2.36 A further area of corporate risk is redundancy costs arising from the 2010/11 budget savings and some 2011/12 savings which have been brought forward. The latest projections for redundancy costs are £1.8M against a reserve of £1.361M. The Local Strategic Partnership has agreed to fund redundancies arising from the reduction in Area Based Grant across all LSP partners' activity up to a total of £0.505M. The Council will seek to draw from this allocation along with other partners.

3. REVENUE VIREMENTS

3.1 There have been a number of virements across Directorates that have been actioned in quarter 2. These are shown in Appendix A6.

3.2 A number of technical adjustments have been actioned in September as part of the base budget review and to reflect changes in management structure. These are within Directorate cash limits.

4. CAPITAL POSITION

4.1. As at the end of September the programme is shown to be £6.315M behind schedule. However, the forecast is that the programme will largely be on track by the end of the year with a £0.367M underspend and £0.872M slippage.

4.2 A summary position by Directorate is shown in table B below with a more detail breakdown shown at Appendix B.

4.3 Table B: Capital Summary

Directorate	Revised 2010/11 Budget £000	Position as at September			Full Year Forecast Variance £000
		Budget £000	Actual £000	Variance £000	
SCHH	2,562	1,797	(33)	(1,830)	(89)
CS	3,492	1,730	945	(785)	33
SC	10,436	8,455	6,283	(2,172)	(783)
C&SS	7,718	4,556	3,207	(1,349)	(200)
OCE	335	(7)	(7)	0	0
Sub Total	**24,543**	**16,531**	**10,395**	**(6,136)**	**(1,039)**
HRA	6,174	2,355	2,176	(179)	(200)
Total	**30,717**	**18,886**	**12,571**	**(6,315)**	**(1,239)**

Social Care, Health and Housing

4.4 The year to date variance is due to delays in payment of schemes under the Campus Closure provision although this is due to be spent by the year end.

4.5 Estimated slippage of £0.089M in the Timberlands project into 2011/12 is the reason for the forecast underspend on the SCH&H General Fund.

4.6 The Housing Revenue Account Capital Programme is forecast for a slight under spend to budget.

Children's Services

4.7 The variance to date of £0.785M derives principally from a delayed start of 3 block schemes. These are the Access Initiative, Asbestos Health & Safety and NDS Modernisation It is anticipated that these schemes will be completed in 2010/11.

Sustainable Communities

4.8 The variance to date is explained by a small number of schemes where the costs are lower than the expected profile, the main explanation being due to Ridgmont Bypass where residual landowner claims have not reached settlement stage and an amount of £1.032M was set aside at the end of 2009/10.

4.9 In-year Central Government Capital Grant reductions of £0.670M and £0.170M have been managed by reducing the Integrated Transport Scheme budget by 25% and ceasing of capital works planned to be delivered through the Casualty Reduction Partnership respectively.

4.10 The forecast annual position is expected to be on budget if the rate of expenditure accelerates in the second half of the year as it has in past year.

Customer and Shared Services

4.11 The variance to date is largely due to a number of schemes running behind schedule which are currently forecast to be on track by the end of the year.

4.12 The £0.200M forecast under spend is due to some costs of the Your Space programme not being capitalised, which has led to a revenue pressure.

5. KEY COST DRIVERS

5.1 The key cost drivers are shown in Appendix C. These drivers identify some of the budgets that have a significant impact on the forecast outturn and variances. They provide non financial data to support the evidence for variations.

5.2 In both Adult Social Care and in Children's Services the trend in respect of client numbers and average costs has increased since last financial year and is on-going during this financial year.

5.3 For Sustainable Communities the reduction in tonnes of waste going to landfill is helping to offset overall the reduction in planning fee income.

5.4 In Customer and Shared Services the trend shows increased case loads of circa 9% which is attributable to the current economic climate.

6. RESERVES POSITION

Earmarked Reserves

6.1 The overall planned level of reserves stands at £11.773M and £2.965M of these have been forecast to be used this year although it is expected the redundancy reserve will be exhausted resulting in a balance of £8.283. Full details of earmarked reserves are shown at Appendix D.

General Reserves

6.2 The expected closing balance on General reserves is £6.6M although this figure is subject to the completion of the audit of the 2009/10 accounts. This level is below the optimum and it is important that remaining expenditure pressures are brought in on target as any overspend will be a call on General Reserve. The current forecast overspend of £3.251M would result in an inadequate general fund of £3.349M.

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7. DEBT

7.1 Debt outstanding as at the end of September was £7.219M. This represents a reduction of £1.515M since last quarter. Whilst there is a reduction in the overall level of debt the profile has changed to 54% being older than 3 months (22% last quarter). A breakdown by Directorate is shown at Appendix E1. Appendix E2 shows in graph form the Council's monthly debt levels and the debt profile since September 2009.

7.2 Outstanding debt for the legacy authorities remains unchanged since quarter 1 at £1.3M for Bedfordshire County Council and £0.6M for Mid and South Beds.

7.3 The total debt written off during quarter 2 2009/10 is £0.004M.

Appendices:
Appendix A1 – Summary of Revenue Position
Appendix A2 - Change in Forecast Position
Appendix A3 – Efficiencies achieved and at risk
Appendix A4 – Compensatory Efficiencies
Appendix A5 – In year Budget Reductions
Appendix A6 - Revenue virements
Appendix A7 - Spend trend graphs
Appendix B – Summary of Capital Position
Appendix C – Key Cost Drivers
Appendix D – Earmarked Reserves
Appendix E – Debt Summary

Background Papers: None

Location of papers: Priory House, Chicksands