Meeting:	**Executive**
Date:	**23 August 2011**
Subject:	**Revenue Budget - Quarter 1 Monitor**
Report of:	**Cllr Maurice Jones , Deputy Leader and Executive Member for Corporate Resources**
Summary:	The report provides information on the Quarter 1 Revenue Budget Management position.

Advising Officer:	John Unsworth, Assistant Chief Executive Resources
Contact Officer:	Charles Warboys, Chief Finance Officer
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 2011/12 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 Customer and Central Services Overview and Scrutiny Committee on 5 September 2011.

RECOMMENDATION(S):

1. that the Executive

notes the Revenue Budget forecast position is an overspend of £0.582M (0.3% of net spend) and therefore requests officers to determine ways to improve the forecast financial outturn to achieve a balanced revenue budget.

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

Executive Summary

The report sets out the financial position for 2011/12 based on the end of June. It sets out the spend to date against the profiled budgets and the forecast financial outturn. Explanations for the variances are set out below in section 3. This report enables Executive to consider the overall financial position of the Council and agree further actions to deliver a balanced financial year end.
Included in this report are improvements to the financial analysis to identify risks, improve presentation, simplify the reports and show greater transparency of the corporate and contingency budgets. This is a first step and further changes will be developed over the coming months.

KEY HIGHLIGHTS (Appendices A1, A2, A3)

1. **In Summary**

- A forecast outturn pressure of £0.582M against budget (0.3% of net spend) is identified;
- The YTD (Year to date) under spend is £3.4m against the profiled budget. However, this should not be seen as indicative of the full year position due to seasonal spend and timing of grants received;
- There are emerging risks in Children's Services (child protection) and cross cutting efficiencies are being closely monitored; plans are being developed to mitigate the impact of any shortfalls;
- Non current debt is £14.6M, the largest invoice being in Sustainable Communities (see paragraph 5.1).

2. **Directorate forecast outturn variances**

The main variances are:

- A £0.567M under spend in Sustainable Communities is due to the release of an earmarked reserve for joint spend with Luton on the core strategy and forecast efficiencies in Economic Growth
- In Customer and Shared Services there is £0.452M pressure in Assets, due to business rates being more clearly costed and in Revenues and Benefits arising from the conclusion of a £0.104M historic South Beds Council subsidy claim.
- Contingency and reserves includes an unbudgeted £1.2M grant from the Adult Skills Agency and £0.6M lower than budgeted income from the New Homes bonus. The net surplus has been offset by the centralisation of budget build realignments from across the directorates and a corporate provision reflecting the risk of achieving some efficiencies.
- Pressures in Corporate Costs of £0.170M are as a result of an interim review of debt management costs, this is subject to further work.

2.1 YTD spend for 3 months at £43.0M (before contingency) is below, on a pro rata basis, the year forecast of £181.6M (after the use of reserves). The key areas are Children's Services, as a result of timing differences between the receipt and spending profiles of grant received and in Sustainable Communities, as a result of additional income received and delayed consultancy costs.

£1.816M spend of Earmarked reserves is included in the forecast spend of £181.3M.

2.2 Further analysis will be done on tracking the YTD variance through to the forecast outturn, and this will assist in the robustness of forecasts and improved financial management.

DIRECTORATE COMMENTARY

3. Social Care, Health and Housing

3.1 Social Care, Health & Housing **General Fund:** the annual expenditure budget is £83.476m set against an income budget of £27.170m which presents a net expenditure budget of £56.306m. The full year forecast outturn position as at the end of quarter 1 is £0.096m over budget.

3.2 Increasing demography, numbers of transitions, future pressures around the de-registration of care homes and self funders returning to the local authority will all need to be managed over the short term.

3.3 For older people, the major area of risk is care packages which are currently showing a projected overspend of £0.377m. An additional amount for demography was provided in the 2011/12 budget a decision that has proved prudent as client numbers are increasing. There are very significant efficiency savings targets in this area in relation to reduced placement numbers, increased continuing health care funding and improved contract prices for external home care.

3.4 For people with learning disabilities, the package cost forecast is showing an under spend of £0.663m. This is mainly due to the care home deregistration which was provided for in the budget but is not currently known or forecast. This was to be funded by a contribution from an earmarked reserve which has still not been drawn down. We are expecting to have more details on the cost implications of this shortly.

3.5 Funding allocations from the Health Service should present opportunities to increase investment around the Reablement service, discharges from hospital and to prevent avoidable hospital readmissions. The Council has signed a legal agreements with the PCT identifying the areas for additional investment but as yet the grant funding has not yet been received.

3.6 The **Housing Revenue Account (HRA):** the annual expenditure budget is £24.859m set against an income budget of £24.464m and a contribution of £0.395m from HRA reserves to present a net budget of zero.

3.7 The first quarter outturn for the HRA shows an adverse variance to profile of £0.196m, which relates to large invoices for the Stock Condition Survey materialising in the first 3 months.

3.8 The forecast outturn position for the HRA requires a contribution from the HRA reserve of £0.272m and is a reduction of £0.123m from the budget set at the start of the financial year. The difference is mostly a result of forecast capital receipts of £0.200m relating to Council property Right to Buys (RtB). In the original self financing proposals it was anticipated that the Council would no longer be allowed to retain 25% of receipts from these sales. Therefore to keep the financing of the capital programme stable, the 2011/12 budget included an increase in the revenue contribution to finance this expenditure. Further guidance supporting the self financing proposals has now been issued and it has been confirmed that this practice i.e. retention of RtB receipts will continue and as a result the revenue account will not be required to make the additional £0.2m contribution.

3.9 Children's Services

3.10 Children's Services annual expenditure budget is £69.1M with an income budget, including transport, of £33.5M which leaves a net expenditure budget of £35.6M. The full year projected outturn position for 2011/12 is £0.1M over spend. This assumes full spend against allocated grants.

3.11 The budget for the first quarter is £8.86M compared to actual spend in the first quarter of £7.217M, below budget by £1.645M. A number of grants have been received and where appropriate and the data are known, budgets have been profiled in June. The spend to date variance is a combination of the impact of spend against grants, such as the Early Intervention Grant of £8.9M where expenditure will be periodic and the trend of spend associated with Education budgets through the school year which is variable.

3.12 Within Children's Services Operations, the overall forecast variance is currently showing an under spend of £93K. The Child Protection and Children in Care budgets are forecasting a total overspend to date of £182K. This pressure is mainly due to agency workers covering qualified posts currently vacant, (each individual post costing a third more than permanent staff). Increasing movement in staff turnover and losses are influencing current recruitment and retention however, rolling recruitment is taking place so that the most skilled workers available to be recruited can be recruited to full time positions in the Council. The development of qualified social workers to fill vacancies is an ongoing key activity. The current overspend forecast is currently mitigated by staffing consultations that are planned to liberate savings in 2012/2013 and where vacancies have occurred. The Children with Disabilities Service is forecast to be £130K under spend, and work on evaluating ongoing spend on disabled children against other councils has just begun. In particular, spend on short breaks for disabled children is currently subject to a more detailed analysis of spend on a case by case basis.

3.13 Within Learning and Strategic Commissioning, the forecast variance is an overspend of £179K. The key variance relates to Transport where the difficult to achieve cross cutting efficiency target of £1,054K is expected not to realise by £405K for 2011/12. This has been offset by £88K savings due to the reduction of contribution required by the authority for the affordability gap on the two PFI Schools, and temporary staffing savings within Learning and Strategic Commissioning of £164K mainly due to a restructure of the service where in year savings will arise that will make a part contribution to the efficiencies in the Medium Term Financial Plan.

3.14 Not currently forecast are a number of possible risks that could see the budget variance rise over the forthcoming months:

- Possible future additional roles following Munro's Review of Child Protection. The Government's response to the Munro report and implementation of this is likely to cause additional pressures as recommendations suggest the need to enhance the role of the Local Safeguarding Board
- Needs led budgets within Child Protection and Special Educational needs and the additional impact of recent OFSTED inspection recommendations on child protection which increase the need for qualified social workers.
- The budget build assumption that supplies and service (non contractual) and staffing expenditure will have 0% inflation applied. Children Services subjective analysis shows 40% of spend relates to supplies and services. Should suppliers not be forthcoming with a" no inflation" position this will impact significantly.
- A number of employees are also on Teachers' pay and conditions having achieved a 1% pay rise and this was not accounted for in the revenue budget.
- Legal expert fees that may be required in addition to the budgeted court process and a possible pressure for 24 hour cover for the Emergency Duty Team.
- The School Forum has currently agreed to fund Academy recoupment costs from Dedicated Schools Grant up to £1M. Should this amount be exceeded, as it could be with the number of schools transferring to academy status, the council could be liable for the excess. The recoupment value currently stands at £264k. However latest figures based on the number of schools seeking Academy status show that this could rise to £698k.
- There is currently no agreement with Bedford Borough for charges relating to the Pupil Referral Unit disaggregation for 2011/12.
- Medium Term Pressures
- ICS project management, achieving the required reduction in staff £400K.

3.15 Sustainable Communities

3.16 Sustainable Communities' overall financial position is forecast at £567k under budget. This result is dependent on efficiency savings of £4,060k being delivered during the year. The first quarter result shows an under spend of £608k, and the quarterly review shows that the Directorate is on track to meet its annual budgetary targets.

3.17 The pattern emerging in 2011/12 is that controllable costs, especially in the staffing area, continue to be dampened down. However, the effect has been largely negated by contract price inflation and lower income receipts. Two examples illustrate the challenges facing the Directorate:

- contracts based on Baxter Indices face likely increases in the range of 5.0% to 5.5% compared to the corporate inflation assumption of 2.0%, and
- Building application income is forecast to be £120k (14%) under budget.

3.18 Besides the external market influences mentioned above, the Directorate is also susceptible to cost pressures arising from adverse weather conditions. The following budget lines are affected in summer and winter: waste collection, green waste, grounds maintenance, road gritting and snow clearance. The risk associated with budget performance will be monitored closely so that the Directorate positions itself to meet its forecast result.

3.19 Customer and Shared Services

3.20 Customer and Shared Services (excluding Corporate Costs, Contingency and Reserves): the annual expenditure budget is £102.075M set against an income budget of £80.432M which leaves a net expenditure of £21.643M. The full year forecast position following planned use of reserves is an overspend of £452k.

3.21 The key reasons for the forecast variance are due to:

- Assets – pressures surrounding rent income achievement on various properties, budget shortfalls for NNDR costs and costs for interim cover of an AD post.
- People – Plans are being drawn up to mitigate pressures that have been identified and to deliver the services within budget.
- Finance - pressures in Customer Accounts due to an increase in the number of benefit claimants, together with an adjustment to previous years' benefit subsidy, partly offset by an additional subsidy receipt. There is a pressure within AD Finance due to the costs of interim staffing.

3.22 There are favourable variances in AD Customer and Systems, largely due to under spends in staff costs.

3.23 The year to date under spend of £581k is largely due to timing differences between insurance premiums payable and the recharges of premiums to schools.

3.23 Office of the Chief Executive

3.24 The Office of the Chief Executive's annual expenditure budget is £4.438M with an income of £0.405M which leaves a net expenditure budget of £4.033M. After releasing £215k of earmarked reserves against planned spend, the Office of the Chief Executive is currently forecasting to be on budget.

3.25 The year to date under spend position for the Office of the Chief Executive is largely as a result of £149k under spend against the Invest to Save budget which has not yet been profiled across the financial year.

3.26 Contingency and Reserves

3.27 Contingency and reserves includes a £1.2M receipt of an unbudgeted grant from the Adult Skills Agency and a £0.6M shortfall in the New Homes Bonus. This is offset by the centralisation of budget build issues across the directorates, together with a corporate provision for risks surrounding achievement of some of the efficiencies.

3.28 Corporate Costs

3.29 The forecast for Corporate costs reflects the result of an interim review of debt management costs, to align with budgeted capital spend and cash flows.

RESERVES POSITION (Appendix B)

4. Earmarked Reserves

4.1 The overall forecast level of earmarked reserves, excluding HRA and Schools, stands at £10.700M. Of this some £1.739M of earmarked reserves have been forecast to be used this year in reaching that level although it is expected that the closing balance on the redundancy reserve will be lower than currently forecast.

The full extent of the 2011/12 redundancy costs arising from the budget savings have yet to be fully quantified. The current reserve is £2.8M.

4.2 General Reserves

4.3 The opening balance on General Fund is £7.089M. It is planned to transfer an additional £1.4M this year. Assuming a balanced budget at year end this will result in a closing balance of £8.489M.

DEBTORS (Appendix C)

5.1 General sales debtors for June amounted to £19.397M, of this debt outstanding and non current was £14.650M.

Sustainable Communities The majority of the debt relates to one invoice for £5M to Luton Borough Council for the GAF funding of the M1/A5 link road. This is reported in the 15 to 30 days balance.

NHS Bedfordshire have one invoice over 91 days for £563k and one invoice for £238k over 60 days that have been awaiting payment following the signing of a legal agreement which will be completed shortly. However, £2.7M of the balance in the 1-14 days category has subsequently been paid since the quarter end.

Customer & Shared Services The majority of the debt in 1 to 14 days relates to school buy back recharges. Of the £844k in 15 to 30 days, £563k relates to school payroll recharges.

5.2 The level of debt over 3 months old represents 15% of total debt outstanding.

Appendices:

Appendix A1 – Council Revenue Summary

Appendix A2 – Directorate Summary

Appendix A3 – Subjective Analysis

Appendix B – Earmarked Reserves

Appendix C – Debtors

Background Papers: (open to public inspection)
None
Location of papers:
Technology House, Bedford