Cabinet

13

Report Subject	**Monthly Budget Monitoring Report to 31 August 2014**
Meeting Date	15th October 2014
Cabinet Portfolio	Councillor John Beesley, Leader of the Council & Portfolio Holder for Resources
Corporate Lead	Liz Wilkinson, Executive Director (Finance)
Service Director	Rob Ingleton, Service Director, Strategic Finance
Status	Public
Classification Key Decision Impacts on Key Policy Framework	For information No No
Report Author	Feriser Tasdelen, Head of Accountancy & Management Assurance ☎ 01202 451969 ✉ feriser.tasdelen@bournemouth.gov.uk
Executive Summary	This report presents the Council's performance against budget for the period 1 April 2014 to 31 August 2014 and the forecast financial outturn for the year 2014/15. This shows a deficit forecast outturn of £3.922m.
Recommendations	**It is recommended that Cabinet:-** **a) note the contents of the report, and the attached Revenue & Capital Management Statements.** **b) note the urgent action being taken by the Executive Team in consultation with Portfolio Holders to mitigate the in-year position and ensure the General Fund is brought back into balance by year-end.**
Reasons for Recommendations	To ensure that the overall financial management and financial standing of the Council is subject to effective review, that appropriate management action is initiated to deliver spend within the approved budget, and to ensure compliance with the Council's Financial Regulations.

Introduction

1 The Council approved its annual Budget for 2014/15 in February 2014. The Budget encompassed a series of planned savings and efficiencies, enabling the Council to avoid cutting front line services. The Council also decided to allocate a further £2.250m to Children's Social Care to address increasing demand in this area and £750k to support the continuing Local Welfare Assistance Fund to mitigate the potential impacts of Welfare Reform.

2 In setting the budget the Council also provided additional investment in areas important to residents, such as the Road Rescue Fund, the Recession Fund, The Community Action Fund and the Local Improvement Fund; improving roads and pavements, cleaning up our neighbourhoods, tackling anti social behaviour and supporting jobs within our local community. Furthermore the Community Finance Initiative and Legal & General Inward Investment schemes initiated in 2013/14 will commence in full, enabling the Council to support housing and business growth by building additional housing stock and care units, in conjunction with providing loans and mortgages to both businesses and residents respectively. These Council initiatives will help to further ease the reliance on local taxpayers and enable the Council to continue to provide high quality public services in future years, despite a 47% loss in Government funding since 2010 through to 2015/16.

3 Whilst these initiatives have been designed to strengthen the Council's financial resilience and ability to act in future years, the Council continues to face significant financial challenges in the short to medium term as a result of sustained increases in demand for its services and continued downward pressures on funding in the context of ongoing difficulties in the wider economy and the financial markets. This is adversely affected further by the fact that the Council has to provide a number of statutory services with the inability to mitigate this by increasing fees and levies. The General fund position as at 31 August 2014 is discussed at paragraphs 8 to 31.

4 Robust monitoring and reporting arrangements are fundamental to the effective management of the Council's finances and resources. In accordance with the Council's delegated financial management model, all budget holders must regularly review current performance against that agreed and advise of any changes likely to impact on the financial position of the service and the Council position overall throughout the financial year. This monitoring report is based on actual performance to the end of August 2014.

5 The Housing Revenue Account is reported separately to the General Fund and is currently predicted to meet the budgeted target overall. Individual cost centre variances do occur and are as explained in paragraphs 32 to 34 and shown in Appendix A.

6 The actual and predicted position of reserves as at 31 August 2014 is set out in Appendix B of the report. Details are set out in paragraphs 35 to 39.

7 The Council's approved General Fund Capital Programme and Housing Revenue Account Capital Programme as at 31 August 2014 were £96.989m and £28.175m respectively. Both programmes are projected as budgeted. Details are set out in paragraphs 40 to 45.

General Fund

8 The General Fund forecast to the year ending 31 March 2015, as at 31 August 2014, currently indicates a forecast deficit outturn of £3.922m which includes adverse variances for service budgets totalling £3.653m plus further net corporate pressures of £269k as shown in Table 1.

9 Work is ongoing to mitigate emerging General Fund pressures, and action plans are developed wherever possible to ensure that these are addressed resulting in a balanced budget at year-end and that all scheduled savings and efficiencies as planned through the Core Service Transformation (CST) programme are achieved. The difficulties experienced by these services in trying to contain costs arising from increased demand and other economic factors outside their control are well understood. Nonetheless all efforts are being made by Officers in conjunction with Portfolio Holders to mitigate the in-year position to bring the overall position to balance by the year-end. This invariably includes action to find further efficiencies, increase income and stop or defer spend wherever possible. Those services currently forecasting a net nil position have also been asked to make every effort to achieve underspend by year-end to assist the overall position of the Council throughout the remainder of the current financial year.

10 The estimated position for the General Fund as at 31 August 2014 is as set out in Table 1. Principally, negative variances relate to Children & Young People, Children's Social Care, Community Learning & Commissioning, Adult Social Care and Planning, Transport & Regulation. In setting the budget it was judged that these services would come under pressure because of increased demand and the fact that the Council has a statutory obligation to provide the services in these areas. As a result provision was made to manage these budget variances through revenue contingency; however, the expectation is that Portfolio Holders, Executive Directors and Service Directors will continue to work hard to reduce the forecast budget position.

Table 1: General Fund Forecast Summary as at 31 August 2014

	Annual Working Budget	Forecast Outturn	Forecast Variance
	£000	£000	£000
Service Budgets			
Executive Board	205	200	(5)
Adult Social Care	47,944	48,394	450
Children & Young People	11,054	11,579	525
Children's Social Care	25,942	27,442	1,500
Community Learning & Commissioning	19,703	19,874	171
Customer	392	428	36
Corporate & Strategic Services	10,882	10,980	98
Housing, Parks & Bereavement	4,766	4,864	98
Environment & Regeneration	25,203	25,203	0
Planning, Transport & Regulation	11,877	12,443	566
Tourism & Corporate Communication	2,784	2,998	214
Projected Service Position	**160,752**	**164,405**	**3,653**
Corporate Budgets			
Interest	(1,465)	(462)	1,003
Corporate Contingency	4,091	4,091	0
Other Corporate Items	(25,656)	(26,390)	(734)
Corporate Budgets Total	**(23,030)**	**(22,761)**	**269**
Total	**137,722**	**141,644**	**3,922**

11 Details of all forecast variances in excess of £100k are set out in paragraphs 12 to 31 of the report in accordance with the Council's financial reporting requirements.

Adult Social Care - £450k ➡

12 As with previous years the Adult Social Care business unit continues to face significant pressure as a result of demographic change and the increase in self funders dipping into eligibility for social care support.

13 In addition to these pressures there has been a recent Supreme Court judgement in relation to Deprivation of Liberty Safeguards. The impact of this ruling is predicted to bring about a ten-fold increase in the number of referrals nationally. Local Authorities are legally required to assess through a statutory process, which must be undertaken by a Best Interests Assessor. Undertaking these assessments at the current level has a considerable cost implication. The costs of these assessments is further increased because of the requirement to ensure formal input from a GP, for which the authority is charged, and legal costs associated with Court of Protection proceedings. The impact of this new requirement, which could not have been anticipated during the budget setting process is for an overspend position of £450k for 2014-15.

Children & Young People – £525k ⬇

14 The majority of the projected overspend relates to Special Education Needs (SEN) transport which continues to be an area of budgetary pressure. The school population and number of statements of SEN continue to increase, with an increasing number of pupils with particularly complex needs leading to an increase in the number of pupils requiring travel. Over the last few years the demand has been actively managed and the impact of inflationary pressures have been minimised by effective retendering. However, the total cost has not been significantly reduced as pupils' needs have become more complex.

15 The service, together with the Passenger Transport Unit and the Tregonwell Academy, is actively reviewing the costs of transporting pupils who have social and emotional rather than cognitive and physical difficulties. The service is also reviewing the need for and mode of transport at the point of statement issue and annual review. An action plan has been developed and is being implemented which includes development of further innovative projects. Whilst these may lead to savings in the future, the impact of these savings are unlikely to be fully realised in this financial year thus the projected overspend position is £525k for 2014-15.

Children's Social Care - £1.500m ➡

16 Historically the Council has seen a significant increase in the number of Looked After Children (LAC) with a 43% increase over the last 3 years. Early indications are that this upward trend is continuing into 2014/15, putting additional pressure on the budgets agreed for Children's Social Care (CSC) which includes the additional allocation of £2.250m as agreed by Cabinet on 19th February 2014. CSC is a

demand led service and as such the Council is reviewing the application of thresholds for access to the statutory services and implementing other actions which are designed to mitigate the increasing demand. In addition, the call on the CSC budget is further affected by the increasing cost of children placed out of the borough which has risen significantly because of the complexity of cases.

17 Significant work has been undertaken to evaluate the effect of these factors on the CSC budget forecast including the increase in costs being incurred in 2014/15 and the potential number of LAC based on previous years experience. However the nature of the service means that the call on resources will fluctuate during the year and as such the forecast overspend of £1.500m is based on the understanding of the service demand at this time.

18 CSC priorities are to reduce both the demand for placements and the cost of placements. The Best Care Under Pressure strategy aims to focus on key priority areas:

- implementation of Early Help services via Children's Trust arrangements
- increasing support to return children to their families wherever possible
- reducing need for emergency placements
- reviewing services to 13 plus's and their families to increase intervention and support
- increasing in house foster placements
- increasing permanence solutions for children
- scoping new children's homes via L&G project to place young people closer to home
- robust monitoring of Out of Borough (OOB) & Independent Foster Agency (IFA) placements

19 The CSC service started the year with a heavy reliance on agency social care staff which has put pressure on the staffing budget. A recruitment strategy has been agreed with Mouchel and the first big advertising campaign went live 1 September. The strategy includes plans to attract more newly qualified workers.

Community Learning & Commissioning - £171k ⬇

20 The principal element of the forecast overspend relates to the demand led pressure on the home to school transport budget of £230k. The overall service budget position is worsened by pressure within business support staffing budgets. However the overspends resulting from these issues are in part offset by managed underspends in other areas of the Service thus the year-end forecast of £171k.

21 The expectation of significant commissioning savings in housing related support approved in February 2014 have yet to be fully identified; work is on-going in this area.

Planning, Transport & Regulation - £566k ⬇

22 The projected overspend largely relates to a reduction in income from planning and building control fees. Total income for this is expected to outturn at £1.260m, underachieving income by £643k (34% below budget). Of this, building control fees are £335k below the budget due to the Council only being allowed to recover the costs of providing the service. The balance of £308k relates to an under achievement of planning income due to government rules changing the number of developments requiring planning permission and change of use. This is in addition to a general reduction in the number of planning applications being received, which is probably due to developers awaiting the outcome of the Community Infrastructure Levy consultation before submitting their applications. The planning team are developing a pre-application service to increase income and reduce eventual workloads, which is hoped will reduce the size of the deficit.

23 The cost of providing concessionary travel, which includes free bus passes for the over 60's is forecast to overspend by £385k. This is a national scheme and the pressure has been caused by an increase in the number of users and an increase in fares of 11% by one of the main operators.

24 The overspend has been partially offset by an underspend of £448k in transportation services due to existing staff being employed on the Local Sustainable Transport Plan capital programme which is grant funded.

25 The service is retaining staff vacancies in an attempt to reduce the impact of these pressures and are anticipating reducing the size of the overspend by the end of the year.

Tourism & Corporate Communications – £214k ⬆

26 There continues to be pressure on the cost of seasonal staff which will result in a £74k overspend. In addition, the service has seen a £50k loss of rental income from the former rowing club site which is awaiting redevelopment.

27 The inaugural Wheels Festival was seen as a success in terms of visitor numbers, which exceeded expectations meaning that additional displays had to be organised at the last minute, along with additional stewarding, medical cover and insurance. There was also a shortfall in income, due to less sponsorship being achieved than anticipated. These led to an overspend position of £90k but officers are working to mitigate the pressure as much as possible by year end. The success, in terms of visitor numbers, will improve the marketability of the festival to increase income at future festivals.

Interest – £1,003k / Other Corporate Items – (£734k) ⬆

28 A fundamental review has been completed in respect of the Treasury Management function and the variance reflects the current projection for the 31 March 2015.

29 Interest charged for the Madeira Road student accommodation scheme is offset by a reduction in revenue contributions to capital as the funding for the scheme is all financed from the capital funding received at the outset.

30 Investment interest received is forecast to be £190k less due to lower investment balances as a result of lower creditor levels, higher debtor levels and cash payments, and other balances being lower than estimated during budget setting.

31 In addition, the budget for investment income set in February 2014 was based on the assumption that an average 1% return would be achieved within 2014/15. The current position on interest rates is unprecedented and there was every expectation by Market experts that interest rates would gradually rise from Quarter 3 in 2014/15 however the projection has now been pushed back to at least Quarter 1 2015/16. Other examples of significant changes to the market include Public Work Loan Board (PWLB) rates actually reducing in real terms from 4.5% in March 2014 to 3.95% in August 2014. Performance remains strong in achieving the current average return of 0.83% when compared to the average seven day benchmark rate of 0.34%. The Corporate Finance team are continually investigating alternative investment options to improve the investment income achievable and this may improve the overall position by year end.

Housing Revenue Account (HRA) – £0 ➡

32 Appendix A presents the Housing Revenue Account for the period 1 April 2014 to the 31 August 2014. The current year-end projection is for a nil forecast (balanced) position.

33 A change in the accounting rules has meant the Council has adopted the componentisation method of depreciation, which has resulted in a £1.8m increase in this charge. The depreciation charge is credited to the Major Repairs Reserve which is then used to contribute to the financing of the HRA capital programme. The higher depreciation charge therefore means that the revenue contribution to the HRA capital maintenance programme can be reduced by the corresponding amount meaning that the year-end outturn will be on budget.

34 The number of void properties has increased in recent months, caused in part by an increase in the turnaround time resulting from improved specification of void improvements as well as capacity issues within the work force and has had an effect on the rental income collected. A framework agreement and additional resources have now been allocated; this is expected to dramatically reduce the time a property is void. This reduction in income is offset by an increased level of council properties being sold through the Right to Buy scheme thus resulting in a forecast of a nil budget variance.

Reserves

35 Reserves are held by the Council to help it better manage the financial resilience of the organisation by providing stability and allowing it to manage risk and take opportunities effectively over the course of the financial year. The level of reserves held by the Council varies from year to year according to circumstances and the changing landscape of financial risk.

36 The strategic management of the Council's reserves position is also informed and shaped by an understanding of how reserves can and should be intentionally built over time, as set out in the Council's Reserve Strategy (Agreed at Council 25 February 2014) in order for them to be deployed in support of the Council's overall Financial Strategy over the medium to long term.

37 The approach set out in the Council's Reserve Strategy has been planned to ensure the Council is able to respond in a measured and thoughtful way, over time, to downward pressures in funding and required transitions arising from short to medium term changes in future business requirements without compromising shorter term operational service needs.

38 The intended purpose of some reserve amounts held by the Council means that there may be little movement in such reserves during the year as they will be subject to adjustment at year-end, for example the Unspent Revenue Grants Reserve, which is used to hold grants received in the financial year, but not required until future financial years. Monitoring movement on these types of reserves throughout the year is therefore less certain as year-end changes are difficult to predict in these cases.

39 The actual and forecast position of reserves as at 31 August 2014 is set out in Appendix B.

Capital

40 The Council's 2014/15 General Fund Capital Programme as at 31 August 2014 was £116.088m. All approved variations in the budget since then are shown in Table 2. Presently the Council has future commitments approved, subject to funding totalling £19.099m. Resources will only be committed after consideration by the Executive Gateway Board (EGB) of a full business case.

41 The Executive Gateway Board will be pro-actively monitoring projects to understand any slippage going forward and to make sure that schemes are achieved in line with capital programme expectations.

42 The General Fund Capital spend to 31 August 2014 is £13.572m representing 13.99% of the total approved budget for 2014/15.

43 The Council's 2014/15 Housing Revenue Account Capital Programme as at June 2014 was £28.175m. The actual Housing Revenue Account Capital spend to 31 August 2014 was £3.391m, representing 12.04% of the total approved budget for 2014/15.

Table 2: General Fund Capital Programme Approved as at August 2014

	£m
Approved Capital Programme - July 2014	116.088
Amendments approved	
No amendments as no EGB meeting in August	-
Approved Capital Programme - August 2014	**116.088**
Approved Subject to Funding	**(19.099)**
Current Operational Capital Budget 2014/15	**96.989**

44 The Council wide Capital Programme and performance to date is summarised in Table 3.

Table: 3 Summary of Capital Programme split between General Fund and HRA

	General Fund £m	HRA £m	Total £m
Revised Budget	96.989	28.175	125.164
Spend	13.572	3.391	16.963
Variance	**83.417**	**24.784**	**108.201**
% Spend	13.99%	12.04%	13.55%
Profiled Budget August 2014	27.190	6.078	33.268
Spend	13.572	3.391	16.963
Variance	**13.618**	**2.687**	**16.305**
% Spend	49.9%	55.8%	50.99%

45 Contained in the Revenue & Capital Management Statements 1 April 2014 – 31 August 2014 is a list of capital exceptions where the progress to date on a capital scheme is not in line with the agreed budget profile.

Executive Gateway Board

46 Following a review of the reporting mechanism for Executive Gateway Board (EGB) the Council's S151 Officer has determined that it is more effective to report non-key decisions made by EGB through the monthly budget monitoring rather than prepare an additional and separate report.

47 There was no EGB meeting in August so there are no new decisions to report at this time.

Consultation

48 This report and the attached statements have been prepared in consultation with Service Directors and Executive Directors, and on the basis of information provided by them.

Options

49 This report provides financial performance information, and as a result there are no alternative options to consider.

Summary of finance and resourcing implications

50 The finance and resourcing implications are as set out in the body of this report.

Summary of legal implications

51 None.

Summary of human resources implications

52 Human resource issues are considered as part of the budget and services planning process that support the allocation of Council resources.

Summary of environmental impact

53 The environmental impact of the budget allocation is considered by Service Directors and Portfolio Holders in preparing their budget and Service Plan proposals.

Summary of equalities and diversity impact

54 Equality and diversity issues are considered as part of the budget and services planning process that support the allocation of Council resources.

Summary of risk assessment

55 The effective management of the Council's Budget is fundamental to the good governance of the organisation. Failure to do so will result in inadequate financial health and wellbeing of the Council. Without addressing financial pressures the Council will not be able to develop a sustainable Medium Term Financial Plan and will not be able to effectively invest in its service priorities as identified in the Council's Corporate Plan.

56 Actual performance to the end of August 2014 suggests a number of key risk issues that will need to be kept under close review and the appropriate mitigation taken as needed during 2014/15, principally:

a sustained and increasing pressures on key areas of service, largely being driven by increased demand for services and/or from reduced income earnings. This is particularly true in areas such as Children & Young People, Children's Social Care, Community Learning & Commissioning;

b change in legislation leading to alternative ways of delivering services and the imposition of new unfunded responsibilities, or changes to cost/income that can be achieved;

c the potential impact on service budgets in delivering services during rapid change and transformation and the role of corporate funding resources in helping to manage service transition.

57 This report and the outlined actions will form part of the mitigation strategy associated with the following financial risks identified in the Council's Strategic Risk Register:

a failure to respond to the needs arising from a changing demography – pressure on resources in the current economic climate and cuts in public sector funding; changes in birth and death rates; key legislative changes affecting benefits or schools; transfer of public health function to local authorities. **(Ref: CR01)**

b failure to respond effectively to the changing national policy agenda within the local context of the town – changes in financing and cuts in public sector funding; changes in central government policy including devolving more responsibility to local government; differences between central government and local government priorities. **(Ref: CR02)**

c failure to deliver Council ambitions – pressure on resources in the current economic climate and cuts in public sector funding; changes in central government policy including devolving more responsibility to local government; differences between central government and local government priorities; pressure from local demographics, other partners e.g. changes to health service; impact of the on-going recession. **(Ref: CR03)**

d failure to positively manage the Council's leadership role in the development of the local economy – current economic context and trends including impact on capital receipts; cuts in public sector funding; impact of the recession including increased demand for services; ability of services to meet demand; sustainability of voluntary sector; impact of welfare reform. **(Ref: CR07)**

e failure to manage the finances of the organisation effectively – pressure on resources in the current economic climate and cuts in public sector funding render strategy inoperable; misalignment

of budgets and priorities; failure to achieve expected capital receipts and/or variations in trading income. **(Ref: CR10)**

Background papers

Report to Council 25 February 2014 entitled 'Medium Term Financial Plan 2014/15 – 2016/17 & the Budget 2014/15'
Reports-Package - 140225

Appendices

Appendix A – Housing Revenue Account Summary 1 April 2014 – 31 August 2014

Appendix B – Estimated Reserve Movements as at 31 August 2014

Supporting Papers

Revenue & Capital Management Statements 1 April 2014 – 31 August 2014

Feriser Tasdelen
Head of Accountancy & Management Assurance
22 September 2014

Appendix A

HOUSING REVENUE ACCOUNT SUMMARY 1 APRIL 2014 – 31 AUGUST 2014

	Adjusted Budget £0	Forecast Outturn £0	Forecast Variance £0
Income			
Rental Income	(22,074)	(22,006)	68
Repairs Income	(354)	(354)	0
Partnership Works Team	(4,238)	(1,985)	2,253
Photovoltaic Income	(580)	(580)	0
Other Income	(741)	(739)	2
Recharges	(855)	(855)	0
Total Income	**(28,842)**	**(26,519)**	**2,323**
Expenditure			
Head of Service	135	143	8
Housing Management	4,760	4,489	(271)
Mouchel Charges	546	537	(9)
Tenants/Leaseholders/IT	379	286	(93)
Repairs	3,472	3,400	(72)
Depreciation	5,616	7,396	1,780
Other Recharges	1,236	1,353	117
Partnership Works Team	4,329	2,443	(1,886)
Photovoltaic	76	43	(33)
Other	96	92	(4)
Total Expenditure	**20,645**	**20,182**	**(463)**
Net (surplus)/deficit for service	**(8,197)**	**(6,337)**	**1,860**
Appropriations & Other Adjustments	8,197	6,337	(1,860)
Net (income)/expenditure for the period	**0**	**0**	**0**