09 November 2011	~~ITEM~~ APPENDIX 1
Cabinet	
2011/12 BUDGET MONITORING – MONTH 6	
Report of: Sean Clark - Head of Corporate Finance	
Wards and communities affected: All	**Key Decision:** Yes
Accountable Head of Service: Sean Clark	
Accountable Director: Martin Hone - Director of Finance & Corporate Governance	
This report is: Public	
Purpose of Report: To update Members on the current revenue and reserves forecasts for 2011/12.	

1 SUMMARY

1.1 This report sets out the current revenue forecasts against budget for both the General Fund and Housing Revenue Account and their respective reserves.

1.2 The current forecasts need to be read in the context of having to deliver £11.6m of savings built into the base agreed by Full Council on 1 March 2011, and the net base budget adjustments of £3.1m agreed July 2011. In addition, as part of the Medium Term Financial Strategy, the Council has set a target of achieving a level of reserves equivalent to £8m at the end of the financial year.

2 RECOMMENDATIONS:

2.1 **That Cabinet note the current forecast for the General Fund outturn;**

2.2 **That Officers continue to identify further savings and efficiencies in order to deliver a balanced budget position for the financial year;**

2.3 **That Cabinet note the General Fund reserve levels, and the strategy to end the financial year with a balance of reserves equivalent to £8m;**

2.4 **Note that in line with the Council's resolution of 1 March 2011, virements in excess of £0.250m will be reported to the next meeting of Full Council on 30 November 2011.**

2.5 **That Cabinet agree that a reserve to meet demographic pressures and transformation pump priming be set up through funds identified from excess savings and a balance sheet review; and**

2.6 **That Cabinet note the HRA forecast and reserve position.**

3 FORECAST OUTTURN 2011/12 – GENERAL FUND

3.1 The outturn report presented to Directors' Board on 25 October 2011 showed a budget pressure of £0.452m, a 0.28% variance against the revised base budget. This has occurred as a result of cost pressures during the financial year within statutory functions that the Council must provide. In order to offset these, and deliver a balanced financial position at the end of the financial year, work is currently being undertaken to identify solutions to mitigate the pressures.

3.2 Cabinet will be aware that at the Council meeting on 1 March 2011, the Council resolved that any virement of £0.250m or greater should be reported back to Full Council. As such a report will be submitted to the next meeting of Full Council on 30 November 2011.

3.3 The forecast outturn position for each directorate is shown in the table below. For consistency, the directorate split illustrates the position as at the start of the financial year i.e. by showing Children, Education and Families and Community Wellbeing separately.

General Fund Forecast Outturn - Directorate Analysis

Directorate	**Revised Budget for year £000s**	**Forecast Variance for year at month 6 £000s**	**Month 6 Variance as percentage of budget %**
Directorate Budgets			
Transformation	3,737	0	0
Delivery Unit	2,956	(7)	(0.24%)
Children, Education and Families	30,804	0	0.00%
Community Wellbeing	40,592	(95)	(0.23%)
Finance & Corporate Governance	8,383	0	0.00%
Sustainable Communities	23,464	(56)	(0.24%)
Sub Total Directorate Budgets	**109,936**	**(158)**	**(0.14%)**
Corporate Budgets	17,027	265	1.56%
Severance Costs		345	
Savings to be identified	0	(452)	
Net Expenditure	**126,963**	**0**	0.00%

3.4 In July, Members will recall that Cabinet approved £3.1m net savings to meet various pressures that were identified as impacting on the financial outturn in 2011/12.

3.5 The level of savings achieved enabled the Council to balance its financial position at the time of the report, but did not allow for any additional severance costs, the write back of bad debts or legal costs. Pressures within these three areas, and any other unforeseen issues, will require corrective action to be taken in year to avoid the use of the Councils reserves.

3.6 Further analysis is provided at Appendix 1.

4 RESERVES – GENERAL FUND

4.1 Members will recall that the balance of reserves as at 1 April 2011 stood at £5.120, compared to £2.1m at the same time in 2010.

4.2 The Director of Finance and Head of Corporate Finance have continued with the debt management strategy that was in place during 2010/11, and this is estimated to generated an additional £2.891m surplus against the treasury management budgets which will subsequently be transferred directly into the Council's reserves.

RESERVES - Projected General Fund Balance as at 31 March 2012

	£m
Total Available 1 April 2011	**5.120**
Forecast Budget Variance at 31st March 2012	0.000
Treasury Management Surplus	2.891
Projected Balances at 31 March 2012	**8.011**

4.3 As can be seen in the table above, in order for the Council to close the financial year with reserves at a level of £8m, it is paramount that the expenditure in the year is equivalent to the budget, with no adverse variances.

4.4 In addition to the General Reserves, the Star Chamber process identified the need to set aside £1.0m as a contingency against demographic pressures next year and a further £0.4m to pump prime and support the transformation programme through invest to save and project management. The £1.4m required will be in addition to the General Fund balance and will be achieved through excess savings and a balance sheet review, including the use of S106 monies.

5 Risks associated with the outturn

5.1 Directors' board have instructed all officers that the Council must end the financial year without an adverse budget variance, and that there be no call on reserves in order to balance the financial position at year end. However, it must be appreciated that the Council still needs to operate for a further six months, and not all areas of associated cost pressure risk can be completely mitigated.

5.2 The following points below identify the main areas of risk for each directorate which could have an adverse financial implication. Across all Directorates are the inherent financial costs of employing agency staff into essential front line posts in order to undertake statutory duties.

Delivery Unit

- Costs associated with some of the operational assets and the running and maintenance costs.

- Grant conditions within regeneration.

Children Education and Families

- Cost pressures arising from the demand for children's placements.

- Pressures arising from asylum seeker cases.

Community Wellbeing

- Increased demand and severity of need within Adult Social Care residential placements.

- Operating deficits in relation to the Theatre and promotions and leisure management.

Sustainable Communities

- The potential impact of severe weather during the winter and the costs associated with gritting and highway maintenance over and above the budget.

- The volume of works allocated to the Highways Maintenance Function.

- The potential for higher levels of sickness within the waste service.

Corporate Pressures

- The ability to deliver all savings targets that were put into the base budget at the start of the financial year.

6 FORECAST OUTTURN 2011/12 – HOUSING REVENUE ACCOUNT

6.1 The HRA is forecast to breakeven at 31 March 2012. Detailed breakdown and analysis is provided in Appendix 1.

Projected HRA Balance as at 31 March 2011	**£ms**
Balance as at 1 April 2011	2.548
Use of balances to fund essential health and safety work	(0.848)
Forecast variance for the Year	0.000
Projected Balance at 31 March 2012	**1.700**

6.2 Whilst the HRA is forecasting a balanced position at the end of the financial year there are a number of significant cost pressures that have arisen.

6.3 The removal of the supporting people grant has resulted in lost income totalling £0.782m. This has a direct impact on the overall level of resources available to finance operations in the HRA.

6.4 There is a projected reduction in income of £0.224m associated with void dwellings and garages. In short, this is the total amount of time that it takes for properties to be re-let following a change in tenancy or repairs. The turnaround time on dwelling voids has increased and, as a result, this reduces the overall level of rent that will be collected on the property. The rental demand for Council owned garages has also not risen during the year and the total amount of income received is likely to fall short of the target. A recovery plan has been agreed to improve both the turn-around in empty dwellings and garages.

6.5 There is currently a projected net pressure of £1.967m in relation to day to day repairs. This is as a consequence of both demand being greater than originally anticipated and uncertainties about the final charges for each job completed in the first six months of the financial year. This forecast position and level of spend is based upon the data that is currently available, although further work is being undertaken in order to gain a better understanding of this. The management of this demand led function is complex and there are a number of issues that are currently being addressed in order to make the process more efficient and transparent. At the forefront of this is ensuring that the IT interfaces between the Council and Morrison are installed and that the process to integrate the Saffron system with Morrison's system is finalised. This will allow for greater control over the expenditure and management of data. In addition, the voids strategy and inspection process are also being reviewed.

6.6 Officers will continue to priorities clarifying all outstanding invoices from Morrison so that the full picture is known and agreed by the end of November.

6.7 Savings of £1.681m have been identified, arising as a result of slippage within other HRA budgets where underspends have been projected, have been identified and are being held to offset the adverse repairs budget variances. These saving are a mix of works that are unable to be completed on planned maintenance during the current financial year and savings obtained within other revenue budgets. Where planned maintenance works are not completed this year they will be rolled forward to be completed in 2012/13. However, further work is required on the repairs budget to ensure that there is not an ongoing increase in the run-rate of repairs expenditure which would cause ongoing pressures in future years.

6.8 Further savings totalling £0.429m have been identified though budget management processes and debt management and financing reductions.

6.9 The overall impact of the pressures and savings currently identified leaves a resulting deficit of £0.866m on the HRA. Officers are currently reviewing the options to mitigate this cost pressure through a strategy of prudent budgetary controls (limiting expenditure to essential repair items, and controlling high value orders by senior manager authorisations) and off-setting residual projected overspends from underspends elsewhere in the HRA. Housing officers believe that the current budget pressures will be covered by these budget controls and actions that have been put in place for the remainder of the financial year. However, it remains a risk that the actions will not cover the overspend and that there will be a call on the HRA reserves during this financial year.

6.10 In summary, the action being undertaken in order to manage the HRA budget , and achieve a balanced position at the end of the year is as follows:

- A void performance recovery plan which will limit expenditure on voids to the Council's fit to occupy policy standard.
- Fundamental review of all Morrison work undertaken so far this financial year
- Resolution of the IT interface between Saffron and Morrison IT system
- Authorisation of high value jobs to be agreed by senior Housing Managers only
- Non urgent jobs to be placed in batch repairs programmes and carried out on a planned basis
- Greater income generation through the identification and quantification of rechargeable repairs
- Improved data to enable the targeting of cost control measures more effectively

7 IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

7.1 The savings that are being achieved will, in part, be impacting on the community and performance. However, maintaining a balanced budget whilst improving the level of reserves allows budget decisions to be made in a more timely and controlled fashion.

8 IMPLICATIONS

8.1 <u>Financial</u>

Implications verified by: **Sean Clark**
Telephone and email: **01375 652010**
sclark@thurrock.gov.uk

The report shows a challenging position for both the general fund and the housing revenue account. Officers must work closely with their Portfolio Holders to identify further savings to ensure that a balanced budget is maintained.

8.2 <u>Legal</u>

Implications verified by: David Lawson
Telephone and email: 01375 652087
dlawson@thurrock.gov.uk

There are no direct legal implications arising from this report. This report provides an update and allows members to review the adequacy of existing budgets

8.3 **Diversity and Equality**

Implications verified by: **Samson DeAlyn**
Telephone and email: **01375 652472**
SDeAlyn@thurrock.gov.uk

This report is a budget monitoring report. There are no specific equality or human rights implications arising from this report.

8.4 **Other implications** (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental

There are no specific implications from this report.

9 CONCLUSION

With both the General Fund and the Housing Revenue Account currently showing pressures, it is important that the financial rigour that has been displayed in recent months is maintained to bring the budget position back into balance...

BACKGROUND PAPERS USED IN PREPARING THIS REPORT:

There are various working papers within directorates and accountancy.

APPENDICES TO THIS REPORT:

Appendix 1 – Directorate Analysis

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REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
TRANSFORMATION		
Business Services	**2,077**	**0**
Change & Improvement	**120**	**0**
Corporate Stewardship	**394**	**0**
HR, OD & Customer Strategy	**953**	**0**
Policy, Performance & Partnerships	**193**	**0**
Transformation Total	**3,377**	**0**

Directors Commentary – Month 6

The Directorate is forecasting to come in within budget at the end of the financial year.

Detailed budgetary control work will continue to be undertaken until the end of the financial year to identify any further possible savings to help sustain the Council's financial objectives or to be used to invest to accelerate savings proposals detailed within the Medium Term Financial Strategy.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
DELIVERY UNIT		
Communications	**435**	**0**
Community Engagement		
Small overspend on maintenance in village halls		**3**
Total	**211**	**3**
Diversity		
Savings on vacancies on projects spend		(10)
Total	**170**	**(10)**
Policy Unit	**1,067**	**0**
Regeneration	**1,073**	**0**
Delivery Unit Total	**2,956**	**(7)**

Directors Commentary – Month 6

There are no significant pressures within the Directorate based on the current financial position.

There is a significant level of grant income funding services that are contained within the Directorate, as well as corporate objectives. Naturally with these there is an element of associated risk, as well as possible slippage and the need to carry money forward into future financial years.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
CHILDREN, EDUCATION & FAMILIES		
Care and Targeted Outcomes		
Children and Families External Purchasing		**636**
Asylum Seeking Children		**310**
Initial Response and Family Support Agency Costs		**607**
QA Child Protection		**58**
Specialist Practitioners		**32**
Other		**97**
After Care		(192)
Fostering / Foster Care		(223)
Aim Higher – Short Breaks		(155)
Legal Proceeding		(141)
Adoption & Residence Orders		(94)
Through Care		(94)
Accommodation – Young People		(75)
Service Managers		(72)
Thurrock Access to Resources Panel		(46)
Children and Family Consultation		(43)
Youth Offending Service		(36)
Other		(144)
Total	**19,649**	**425**
Director		**0**
Staffing budget savings		(150)
Total	**255**	**(150)**
Learning and Universal Outcomes	**7,982**	**0**
Policy and Performance		
Reduction on procurement of transport contracts		(100)
Total	**2,918**	**(100)**
Savings to be identified within the directorate		**(175)**
Children, Education and Families Total	**30,804**	**0**

Directors Commentary – Month 6

The Directorate is forecasting a break even position at the end of the financial year. In order to achieve this, additional savings and efficiencies of £0.175m need to be identified to offset budget pressures. As part of the budget monitoring process, senior managers are currently working on strategies to achieve this.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
COMMUNITY WELLBEING		
Community, Libraries and Cultural Services		
Libraries	1,625	(17)
Museums & Archives	83	(1)
Admin & Managements	11	(7)
Theatre & Promotions	87	85
Leisure Management	914	(65)
Total	**2,720**	**(5)**
Housing General Fund	**1,229**	0
Integrated Adults Social Care		
Adult Social Care External Purchasing		1,287
Utilisation of PCT funding		(1,000)
Social Care Field Work Teams		(187)
HC Crisis Support and Intervention Team		(145)
Mental Health Team		(22)
Service Managers		113
Community Support Services		47
Day Care Services		(173)
Strategy & Commissioning Teams		(24)
Other Variances		14
Total	**36,643**	**(90)**
Community Wellbeing Total	**40,592**	**(95)**

Directors Commentary – Month 6

The Directorate is forecast to underspend by £0.095m at month 6. Work is still being undertaken to identify additional efficiencies and to quantify the full impact of financial pressures, and to ensure that all costs relating to the transfer of Day Opportunities are quantified. The forecast outturn on the external placements budgets is an overspend of £1.2m. This reflects growing demographic pressures (more people aged over 85 years being referred into care and living longer) and the increase in complexity Adult Social Care is facing (e.g. more referrals of people with dementia, autism and challenging behaviours). This overspend is offset, in part, by the utilisation of the PCT social care funding transfer which was allocated as part of the Comprehensive Spending review last year.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
FINANCE & CORPORATE GOVERNANCE		
Chief Executive's Department	**414**	**0**
Corporate Director		
Agency Spend PA cover		4
Total	**5,597**	**4**
Corporate Finance	**718**	**0**
Legal Services		
Savings on expected spend on CMIS, Case Management, Stopford & RAFT systems		(4)
Total	**1,652**	**(4)**
Finance and Corporate Governance Total	**8,382**	**0**

Directors Commentary – Month 6
The Finance and Corporate Governance Directorate is forecasting a break even position at the end of the financial year.

This is being achieved through a series of budgetary control mechanisms put in place to contain expenditure within the allocated resources.

There is some small fluctuation in costs between service areas which will be managed as part of the directorate financial strategy.

REVENUE BUDGET MONITORING REPORT- MONTH 6

Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
SUSTAINABLE COMMUNITIES		
Street Services:		
Increased work received from Highways/Housing Services		(50)
Reduced Agency Staff, Equipment & Material purchases		(31)
Waste:		
Additional External Income		(68)
Reduced levels of agency Staff, Equipment and Material Purchases		(57)
Greening Services:		
Sickness Level – increased agency spend		180
Loss of Income from Sales of Bins		20
Environment	**13,582**	**(6)**
Savings in regards to vacant posts		(50)
Public Protection	**2,874**	**(50)**
Strategic Planning & Delivery	**7,008**	0
Sustainable Communities Total	**23,464**	**(56)**

Directors Commentary month 6
At month 6 Sustainable Communities, having implemented cost reduction measures, is forecast to underspend by £0.056m.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	**£000's**
CORPORATE		
Vertex Contract		100
Additional children placement costs		165
Corporate Total	**17,027**	**265**

The pressure contained within the Vertex contract is the net effect of previously unachieved savings targets which have, in part, been offset against Vertex savings on projects delivered in 2010/11.

The opening budget deficit was £0.669m, and in addition there was a further £0.200m saving targeted agreed at Full Council. £0.557m in savings have been achieved though savings within Vertex operations, including the cost reduction in the contract following the upfront payment. The variance was part of the budget rebasing exercise undertaken in July.

Further Vertex savings are being progressed to being the budget within balance, and non-Vertex transformation savings are being looked at with a view to accelerating them to help offset any budget deficits.

REVENUE BUDGET MONITORING REPORT- MONTH 6
Detailed Explanation of Variances by Directorate

	Revised budget for year	Forecast Variance for year at Month 6
	£000's	£000's
HOUSING REVENUE ACCOUNT		
Supporting People Income		782
Rent Loss on Voids		224
Day to Day Repairs (NET)		1,967
Savings within programmed repairs		(1,681)
Surplus on Reserve Balance		(41)
Debt Management Savings		(95)
Revenue Savings identified		(293)
Saving following budget control measures		(863)
Housing Revenue Account Total	**535**	**0**

The Housing Revenue Account is showing a gross pressure of £1.156m for the financial year. This is due, as detailed above, to the loss of income in relation to supporting people, rent loss on voids and a net variance on the repairs and maintenance budgets. Repairs and maintenance are subject to fluctuation, and the forecast is based on current information surrounding the level of repairs and the individual associated costs. Housing Management Officers, in conjunction with Corporate Finance, are monitoring this on a weekly basis to ensure that the cost pressure is mitigated as far as possible, whilst still dealing with a high level of demand.

As part of this process, the individual works that are being undertaken are being analysed to ensure that any items deemed to be improvements, and thus capital expenditure are correctly account for, in accordance with external audit guidance.

In addition, budgetary control measures have also been put in place across the service to achieve further revenue savings that can be used to offset the current cost pressures.

The supporting people income was part of the budget savings for the General Fund contained within the Cabinet report on 6 July 2011 which removed the transfer of the subsidy between the two accounts.

The current turnaround time for void properties has increased, and as a consequence, the level of rent loss has risen. This is being addressed as part of the on-going management strategy of the Housing Revenue Account.