

|                           |   |
|---------------------------|---|
| <b>MEETING:</b>           | <b>CABINET</b>                                    |
| <b>MEETING DATE:</b>      | <b>24 OCTOBER 2013</b>                            |
| <b>TITLE OF REPORT:</b>   | <b>BUDGET MONITORING REPORT -<br/>AUGUST 2013</b> |
| <b>REPORT BY:</b>         | <b>CHIEF OFFICER – FINANCE DESIGNATE</b>          |
| <b>CABINET PORTFOLIO:</b> | <b>CORPORATE STRATEGY AND FINANCE</b>             |

## 1. Classification

Open

## 2. Key Decision

This is not a key decision

## 3. Wards Affected

County-wide

## 4. Purpose

To provide Cabinet with assurance on the robustness of budgetary control and monitoring across the Council, to highlight key financial risks within directorates and identify mitigation to bring the authority within its overall approved budget.

## 5. Recommendations

**THAT:**

- (a) Cabinet notes the projected overspend of £3.9m for 2013/14 and the potential impact on reserves and the 2014/15 budget; and**
- (b) Cabinet supports the continuing action by Directors to identify further financial savings to mitigate the impact; and**
- (c) Directors and financial resources are focussed on identifying savings for the remainder of 2013/14 and future savings for 2014/15 to 2016/17**

## 6. Alternative Options

6.1 There are no alternative options that do not radically effect the provision of services.

## 7. Reasons for Recommendations

- 7.1 The council continues to forecast an overspend for the year, at August approximately £3.9m or 2.5% of its net budget. The key pressure relates to Adults Wellbeing; either savings slipping or not being able to be delivered and pressures from the Department of Health. The projected overspend in Adult Wellbeing of £4.3m represents 8% of their net budget. Mitigations have been put in place to recover the position and these are currently estimated to be approximately £0.4m, which would improve the reported position.
- 7.2 The council has a limited level of reserves; to such an extent that any overspend in year would need to be recovered in 2014/15, adding to already significant savings forecast at approximately £12m or 8% of its net budget.
- 7.3 Local authorities are not legally permitted to borrow to support revenue overspends and the low level of reserves put this position at risk unless urgent action is taken. Additional action is therefore recommended, to bring forward additional savings proposals from across the council, to minimise the potential overspend.

## 8. Key Considerations

- 8.1 This report sets out the reasons for the major variances and actions taken to date. Moving forward the Council will need to radically change its approach to delivering services in order to meet its future savings targets.

8.2

| Service  | Budget Exp.    | Budget (Income)  | Net Budget     | August Forecast Outturn | Projected (Over)/ under spend |
|--|----------------|------------------|----------------|-------------------------|-------------------------------|
|  | £'000          | £'000            | £'000          | £'000                   | £'000                         |
| Adults Wellbeing                               | 68,781         | (14,868)         | 53,913         | 58,190                  | (4,277)                       |
| Children's Wellbeing                           | 42,989         | (14,431)         | 28,558         | 28,466                  | 92                            |
| Economy, Communities and Corporate             | 112,137        | (67,986)         | 44,151         | 44,177                  | (26)                          |
| Chief Executive and Organisational Development | 8,285          | (689)            | 7,596          | 7,513                   | 83                            |
| Public Health                                  | 7,745          | (7,753)          | (8)            | (270)                   | 262                           |
| <b>Total Directorates*</b>                     | <b>239,937</b> | <b>(105,727)</b> | <b>134,210</b> | <b>138,076</b>          | <b>(3,866)</b>                |
| Treasury Management                            | 15,372         | (259)            | 15,113         | 15,113                  | 0                             |
| Change management                              | 2,000          |                  | 2,000          | 2,000                   | 0                             |
| Government grants                              |                | (3,710)          | (3,710)        | (3,710)                 | 0                             |
| Contingency                                    | 773            |                  | 773            | 773                     | 0                             |
| Other central budgets                          | 220            | (310)            | (90)           | (90)                    | 0                             |
| Transfer to general balances                   | 2,000          |                  | 2,000          | 2,000                   | 0                             |
| <b>Total Budget</b>                            | <b>260,302</b> | <b>(110,006)</b> | <b>150,296</b> | <b>154,162</b>          | <b>(3,866)</b>                |

- 8.3 The Adults over spend of **£4.3m** comprises:

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Further information on the subject of this report is available from  
Peter Robinson, Chief Officer – Finance Designate on (01432) 383319

|  |            |
|--|------------|
|  | <b>£m</b>  |
| ▪ Outstanding budget decisions ECC directorate | 1.2        |
| ▪ Savings Scheme slippage                      | 2.3        |
| ▪ Department of Health Funding Pressures       | 0.5        |
| ▪ Other  | <u>0.3</u> |
| <b>Total</b>                                   | <b>4.3</b> |

8.4 Children's – Pressures relate to:

- Home to school transport of £417k
- Children's social care, including reliance on agency social workers and increased court costs £304k
- Mitigated by the unbudgeted Education Support Grant net £1.7m

8.5 Further detail is included in the Directorate Control meeting reports in appendices A to E.

8.6 **IMPACT ON 2014/15**

- The current Finance Resource Model (FRM) for 2014/15 indicates savings required of £11.6m
- If the current level of overspend continues this would require £15.5m of savings on the base budget to be found in 2014/15, plus a replenishment of reserves of £3.9m. The overall reduction in 2014/15 of £19.4m represents 13% of 2013/14 projected spend;

|   |             |
|---|-------------|
|   | <b>£m</b>   |
| Savings in FRM against budget   | 11.6        |
| Budget overspend  | 3.9         |
| <b>Savings required against 2013/14 spending (projected as £154m)</b> | <b>15.5</b> |
| Repay prudential/minimum balance                                      | 3.9         |
| <b>Total reduction in 2014/15</b>                                     | <b>19.4</b> |

- The level estimated level of reserves includes a budgeted £2m transfer to general reserves in 2013/14 and the potential overspend in 2013/14;

|  |                |
|--|----------------|
|  | <b>31.3.14</b> |
|  | <b>£m</b>      |
| Prudential/minimum acceptable balance* | 4.5            |
| General reserves                       | 2.2            |
| Potential overspend in 2013/14         | (3.9)          |
| Earmarked reserves                     | 7.2            |
| <b>Council reserves</b>                | <b>10.0</b>    |
| Schools balances                       | 5.3            |
| <b>Total reserves</b>                  | <b>15.3</b>    |

\* Each authority's S151 Officer must determine a minimum acceptable working balance which recognises potential unforeseen/unbudgeted financial risks e.g.

flooding, natural disaster or unforeseen litigation. In Herefordshire this has been assessed and approved by the External Auditor as 3% of the net revenue budget. If used it must be replenished the following financial year.

- The earmarked reserves include an estimated £5.3m of schools balances, which are not available for general use, and £2.6m waste disposal reserve.

### ONE-OFF COSTS

- Funding for change management, mostly one-off severance costs, is as follows;

8.7

|                    | <b>£,000</b> |
|--------------------|--------------|
| Budget for 2013/14 | 2,000        |
| Contingency        | 773          |
| Earmarked reserve  | 142          |
|                    | <b>2,915</b> |

- In addition, there is a provision of £440k for severance costs committed in 2012/13 but incurred in 2013/14.
- Current estimates are for redundancy and actuarial strain to be within budget.
- The Government has issued the rules and procedures for applying for a capitalisation direction in 2013/14, where “an extremely strong case can be made that the expenditure is applicable for capitalisation”. A threshold, based on spending and reserves, has been set (£2.29 million for Herefordshire) and only spend above that level could be capitalised (if successful). Applications have to be submitted to the Department for Communities and Local Government by 31 October 2013. If Herefordshire makes a bid and this is approved it would mitigate the overall revenue position in 2013/14 but add to our borrowing costs for future years. For example, if one-off costs of £3m were identified the £700k could be capitalised at a future cost of around £116k per year if paid over 7 years. Decisions will be issued by the Government department in January 2014.

8.8 Appendix F includes the position on the capital programme for 2013/14. It shows that the projected capital out-turn is £54.1m funded from capital grants (£30.6m), borrowing (£19.7m) and capital receipts (£3.8m).

8.9 The Treasury Management position is projected to break even in 2013/14. Appendix G includes a detailed analysis.

## 9. Community Impact

9.1 Savings measures may impact on the community but will be subject to consultation before implementation.

## 10. Equality and Human Rights

10.1 The recommendations do not have a direct equality implication; however, resulting actions will need to consider these.

## 11. Financial Implications

11.1 These are contained within the report.

## **12. Legal Implications**

- 12.1 The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure (Ref: 1988 Local Government Finance Act).

## **13. Risk Management**

- 13.1 Monthly budget control meetings are chaired by the Chief Officer Finance to give assurance on the robustness of budget control and monitoring, to highlight key risks and to identify any mitigation to reduce the impact of pressures on the council's overall position.

## **14. Consultees**

- 14.1 None

## **15. Appendices**

- 15.1 Appendix A – Adults Wellbeing Budget Control meeting  
Appendix B – Children's Wellbeing Budget Control meeting  
Appendix C – Economies, Communities and Corporate Budget Control meeting  
Appendix D – Chief Executive and Organisational Development Budget Control meeting  
Appendix E – Public Health Budget Control meeting  
Appendix F – Capital Monitoring  
Appendix G – Treasury Management

## **16. Background Papers**

- 16.1 None identified.