

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE:	26 NOVEMBER 2013
TITLE OF REPORT:	BUDGET MONITORING REPORT – SEPTEMBER 2013
REPORT BY:	CHIEF OFFICER – FINANCE

1. Classification

Open

2. Key Decision

This is not an executive decision.

3. Wards Affected

County-wide

4. Purpose

To update Audit and Governance Committee on the financial position to 30 September 2013. The Treasury Management position is also included. As part of the Committee's work programme it receives six monthly updates on the financial position.

5. Recommendation

THAT: the Audit & Governance Committee note the report and the forecast position.

6. Alternative Options

6.1 There are no alternative options.

7 Reasons for Recommendations

7.1 To inform the Audit and Governance Committee about the projected revenue and capital outturn position for 2012/13 including Treasury Management activities. The report covers the position presented to Cabinet on 21 November 2013. The council continues to forecast an overspend for the year, at September approximately £3.3m or 2.2% of its net budget, compared to £3.9m in August. 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 has reduced from £4.3m in August to £3.4m,

although there are additional net pressures in other Directorates of £0.3m.

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.

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.

Service	Budget Exp.	Budget (Income)	Net Budget	September Forecast Outturn	Projected (Over)/under spend
	£'000	£'000	£'000	£'000	£'000
Adults Wellbeing	69,068	(14,866)	54,202	57,604	(3,402)
Childrens Wellbeing	43,008	(14,607)	28,401	28,440	(39)
Economy, Communities and Corporate	111,537	(67,456)	44,081	44,161	(80)
Chief Executive and Organisational Development	8,196	(707)	7,489	7,406	83
Public Health	7,745	(7,753)	(8)	(270)	262
Total Directorates	239,554	(105,389)	134,165	137,341	(3,176)
Treasury Management	15,239	(259)	14,980	14,980	0
Change management	2,000		2,000	2,000	0
Government grants		(3,533)	(3,533)	(3,533)	0
Contingency	773		773	773	0
Other central budgets	221	(310)	(89)	61	(150)
Transfer to general balances	2,000		2,000	2,000	0
Total Budget	259,787	(109,491)	150,296	153,622	(3,326)

8.2 The Adults over spend of **£3.4m** comprises:

	Aug £m	Sept £m
▪ Outstanding budget decisions ECC directorate	1.2	0.9
▪ Savings scheme slippage	2.3	2.3
▪ Department of Health Funding Pressures	0.5	0.5
▪ Other*	<u>0.3</u>	<u>(0.3)</u>
	4.3	3.4

* The movement includes client packages, housing efficiency savings and social fund savings

- 8.3 Children's Wellbeing position has worsened by £131k since August, with additional pressures of £0.51m, mitigated by savings of £0.38m. The largest pressure being the extension of one residential placement and a new one approved increased projections, £179k.
- 8.4 Included in the 2013/14 budget is a target of £300k to be achieved through procurement projects, including printing, stationery, cash collection and mail services. Whilst savings of £150k are anticipated, the remaining £150k will not be delivered and this pressure is reported within central budgets.
- 8.5 Further detail on month on month budget variance is attached as Appendix A and included in the Directorate Control meeting reports in appendices B to F.

8.6 ONE-OFF COSTS

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

	£,000
Budget for 2013/14	2,000
Contingency	773
Earmarked reserve	142
	2,915

- 8.7 In addition, there is a provision of £440k for severance costs committed in 2012/13 but incurred in 2013/14.
- 8.8 Current estimates are for redundancy and actuarial strain to be within budget.
- 8.9 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 seven years. Decisions will be issued by the Government department in January 2014.
- 8.10 Appendix G includes the position on the capital programme for 2013/14. It shows that the projected capital out-turn is £53.5m funded from capital grants (£30.6m), borrowing (£19.6m) and capital receipts (£3.3m).
- 8.11 The Treasury Management position is projected to break even in 2013/14. Appendix H includes a detailed analysis.

Estimated Reserve Level 31.3.14

Reserves	Actual Reserves 31.3.13 £m	Estimated level 31.3.14 £m
Prudential/minimum acceptable balance*	4.5	4.5
General reserves	0.1	0.2
Provision for risks around the budget	0.0	2.0
Potential overspend in 2013/14	0.0	(3.3)
Earmarked reserves	8.5	7.2

Council reserves	13.1	10.6
Schools balances – not available for council	5.5	5.3
Total reserves	18.6	15.9

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

- 8.12 The reserves include an estimated £5.3m of schools balances, which are not available for general use, and £7.2m of earmarked reserves e.g. £2.6m waste disposal reserve.
- 8.13 The 13/14 budget included an additional £2m to increase reserve levels, this has now been set aside for unbudgeted costs, including pending court cases.
- 8.14 The overall level of reserves at 31.3.13 of £18.6m is sometimes referred to. However £5.5m relates to school balances and cannot be used by the council, £4.5m is its minimum balance that it must not plan to use to balance its budget and £8.5m are ear-marked against specific commitments, leaving only £0.1m available for use.

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 Local Government Finance Act 1988 makes it a legal requirement that the council's expenditure (and proposed expenditure) in each financial year must not exceed the resources (including sums borrowed) available to the authority. If this principle is likely to be breached, the Chief Financial Officer is under a statutory duty to make a formal Report to Members.

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 – Budget Variance analysis
- Appendix B – Adults Wellbeing Budget Control meeting
- Appendix C – Childrens Wellbeing Budget Control meeting
- Appendix D – Economies, Communities and Corporate Budget Control meeting
- Appendix E – Chief Executive and Organisational Development Budget Control meeting
- Appendix F – Public Health Budget Control meeting
- Appendix G – Capital Monitoring
- Appendix H – Treasury Management

16. Background Papers

- 16.1 None identified.