| POLICY & RESOURCES COMMITTEE | Agenda Item 7<br><br>Brighton & Hove City Council |
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| **Subject:** | | **Targeted Budget Management (TBM) Provisional Outturn 2013/14** | |
| **Date of Meeting:** | | **12 June 2014** | |
| **Report of:** | | **Executive Director of Finance & Resources** | |
| **Contact Officer:** | **Name:** | **Jeff Coates** | **Tel: 29-2364** |
| | **Email:** | **Jeff.coates@brighton-hove.gov.uk** | |
| **Ward(s) affected:** | | **All** | |

**FOR GENERAL RELEASE**

## 1 PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out the provisional outturn position (Month 12) on the council's revenue and capital budgets for the financial year 2013/14.

1.2 The final outturn position is subject to the annual external audit review. The final position will be shown in the council's financial statements which must be signed by the Chief Finance Officer by 30 June 2014 and the audited set approved by the Audit & Standards Committee by 30 September 2014.

## 2 RECOMMENDATIONS:

2.1 That the Committee note the total provisional outturn position for the General Fund, which is an underspend of £1.085m. This consists of an underspend of £1.190m on council controlled budgets and an overspend of £0.105m on the council's share of the NHS managed Section 75 services.

2.2 That the Committee note the provisional outturn for the Housing Revenue Account (HRA), which is an underspend of £0.766m.

2.3 That the Committee note the provisional outturn position for the Dedicated Schools Grant which is an underspend of £1.447m.

2.4 That the Committee approve the carry forward requests totalling £7.176m as detailed in Appendix 2.

2.5 That the Committee note the provisional outturn position on the capital programme.

2.6 That the Committee approve the following changes to the capital programme.

i) The variations and reprofiles in Appendix 4 and the new schemes as set out in Appendix 5.

## 3 CONTEXT / BACKGROUND INFORMATION

### Targeted Budget Management (TBM) Reporting Framework

3.1 The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Policy & Resources Committee. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending together with more regular monitoring of high risk ‘corporate critical’ areas as detailed below.

3.2 The TBM report is normally split into 8 sections as follows:

i) General Fund Revenue Budget Performance
ii) Housing Revenue Account (HRA) Performance
iii) Dedicated Schools Grant (DSG) Performance
iv) NHS Controlled S75 Partnership Performance
v) Capital Investment Programme Performance
vi) Capital Programme Changes
vii) Implications for the Medium Term Financial Strategy (MTFS)
viii) Comments of the Director of Finance (statutory S151 officer)

### General Fund Revenue Budget Performance (Appendix 1)

3.3 The table below shows the provisional outturn for Council controlled revenue budgets within the General Fund. More detailed explanation of the variances can be found in Appendix 1.

| Month 9 Forecast Variance £'000 | Directorate | 2013/14 Budget Month 12 £'000 | Provisional Outturn Month 12 £'000 | Provisional Variance Month 12 £'000 | Provisional Variance Month 12 % |
|---|---|---|---|---|---|
| (1,727) | Children's Services | 55,488 | 53,812 | (1,676) | -3.0% |
| 2,348 | Adult Services | 62,744 | 64,570 | 1,826 | 2.9% |
| 237 | Environment, Development & Housing | 34,834 | 34,144 | (690) | -2.0% |
| 223 | Assistant Chief Executive | 12,033 | 12,161 | 128 | 1.1% |
| 10 | Public Health | 1,166 | 1,148 | (18) | -1.5% |
| (976) | Finance, Resources & Law | 36,862 | 35,939 | (923) | -2.5% |
| 115 | Sub Total | 203,127 | 201,774 | (1,353) | -0.7% |
| 638 | Corporate Budgets | 3,764 | 3,927 | 163 | -4.3% |
| 753 | Total Council Controlled Budgets | 206,891 | 205,701 | (1,190) | -0.6% |

3.4 The General Fund includes general council services, corporate budgets and central support services. Corporate budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools).

Corporate Critical Budgets

3.5 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council's overall financial position. These are significant budgets where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council's budget strategy. These therefore undergo more frequent and detailed analysis.

3.6 They are based on current activity levels and commitments but these can fluctuate significantly over the year. Mitigating recovery actions can change the financial outlook substantially, even for small changes in activity levels but the opposite also applies, hence the reason for closer scrutiny of these areas.

| Month 9 Forecast Variance £'000 | **Corporate Critical** | 2013/14 Budget Month 12 £'000 | Provisional Outturn Month 12 £'000 | Provisional Variance Month 12 £'000 | Provisional Variance Month 12 % |
|---|---|---|---|---|---|
| (1,058) | Child Agency & In House | 19,471 | 18,200 | (1,271) | -6.5% |
| 1,875 | Community Care | 41,381 | 43,015 | 1,634 | 3.9% |
| (84) | Sustainable Transport | (15,860) | (16,093) | (233) | -1.5% |
| (257) | Temporary Accommodation | 1,539 | 675 | (864) | -56.1% |
| 0 | Housing Benefits | (569) | (706) | (137) | -24.1% |
| 476 | Total Council Controlled | 45,962 | 45,091 | (871) | -1.9% |

**Carry Forward Requests (Appendix 2)**

3.7 Under the council's Financial Regulations, the Director of Finance may agree carry forwards of up to £0.050m per member of the Corporate Management Team service area (up to a maximum of £1m in total) if it is considered that this incentivises good financial management. A total of £0.050m has been agreed for one of the service areas due to its contribution to the overall underspend.

3.8 Policy & Resources approval is required for carry forward requests in excess of £0.050m. These include grant funded and non-grant funded carry forwards totalling £7.176m and have been included in the outturn figures above. An analysis of this is provided in Appendix 2.

3.9 The non-grant funded element of this totals £3.569m and a detailed breakdown of this is provided in Appendix 2. These items have been proposed where funding is in place for existing projects or partnership working that crosses over financial years and it is therefore a timing issue that this money has not been spent in full before the year end.

3.10 The element relating to grant funding totals £3.607m. Under current financial reporting standards, grants received by the council that are unringfenced or do not have any conditions attached are now recognised as income in the financial year they are received rather than in the year in which they are used to support services. Prior to 2011/12 these unspent grants would have automatically rolled into the next financial year to fund the commitments against them but now they need to be agreed as part of the carry forward requests.

3.11 Within the total of £3.607m, a sum of £1.447m relates to the Dedicated Schools Grant. Under the Schools Finance Regulations, the unspent part of the DSG must be carried forward to support the schools budget in future years.

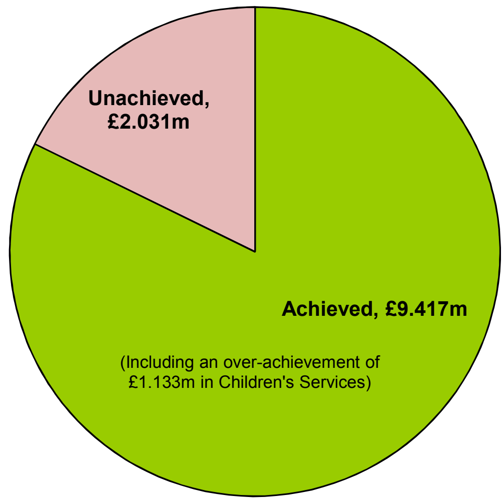
**Value for Money (VfM) Programme (Appendix 3)**

3.12 TBM reports also provide updates on the council's Value for Money programme. The VfM programme contains a number of large, complex projects which include additional temporary resources (e.g. Project Managers) to ensure they are properly planned and implemented. Projects can have significant financial and non-financial targets attached to them and their successful implementation is therefore important to the overall financial health of the authority.

3.13 Some VfM projects carry significant risks and may need specialist advice or skills that can be in short supply or they may need to navigate complex procurement or legal processes. Therefore, each month the TBM report has quantified progress in terms of those savings that have been achieved, those that were anticipated to be achieved (i.e. low risk) and those that remained uncertain (i.e. higher risk). For the outturn report, this is reported as Achieved and Unachieved.

3.14 As reported through second half of the year, there have been two key areas of risk regarding Accelerated Service Redesign, which was supported by a Voluntary Severance Scheme, and category spend on IT hardware and software outside of the ICT service. Accelerated Service Redesign has underachieved by £1.126m (£1.295m full year) while IT category spend has underachieved by £0.229m. In addition, pressures across Adult Social Care have also had an impact on the VfM savings in this area which has under-achieved by £0.650m although this has been mitigated by increased Continuing Health Care funding. Overall, the VfM programme has achieved savings of £9.417m (91.3%) against an original savings target of £10.315m. Further information about the risks and actions relating to these unachieved savings is given in Appendix 3.

Value for Money Programme (All Phases) - 2013/14 Monitoring




Original VfM Target 2013/14 = £10.315m

**Housing Revenue Account Performance (Appendix 1)**

3.15 The Housing Revenue Account is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents. The provisional outturn on the HRA is summarised in the table below. More detail is provided in Appendix 1.

| Month 9 Forecast Variance £'000 | HRA | 2013/14 Budget Month 12 £'000 | Provisional Outturn Month 12 £'000 | Forecast Variance Month 12 £'000 | Provisional Variance Month 12 % |
|---|---|---|---|---|---|
| (328) | Expenditure | 56,295 | 55,565 | (730) | -1.3% |
| 19 | Income | (56,295) | (56,331) | (36) | -0.1% |
| (309) | Total | - | (766) | (766) | |

**Dedicated Schools Grant Performance (Appendix 1)**

3.16 The Dedicated Schools Grant (DSG) is a ring-fenced grant which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including early years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The provisional outturn is an underspend of £1.447m and more details are provided in Appendix 1. Under the Schools

Finance Regulations any underspend must be carried forward to support the schools budget in future years.

**NHS Managed S75 Partnership Performance (Appendix 1)**

3.17 The NHS Trust-managed Section 75 Services represent those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Foundation Trust (SPFT) and Sussex Community NHS Trust (SCT) and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment.

3.18 These partnerships are subject to separate annual risk-sharing arrangements and the monitoring of financial performance is the responsibility of the respective host NHS Trust provider. Risk-sharing arrangements can result in financial implications for the council should a partnership be underspent or overspent at year-end and hence the performance of the partnerships is reported as a memorandum item under TBM throughout the year.

| Month 9 Forecast Variance £'000 | **Section 75** | 2013/14 Budget Month 12 £'000 | Provisional Outturn Month 12 £'000 | Provisional Variance Month 12 £'000 | Provisional Variance Month 12 % |
|---|---|---|---|---|---|
| 186 | NHS Trust managed S75 Services | 12,046 | 12,151 | 105 | 0.9% |

**Capital Programme Performance and Changes**

3.19 Capital programme performance needs to be looked at from 5 different viewpoints at the end of the year as follows:

i) Forecast Variance: The 'variance' for a scheme or project indicates whether it is expected to be break-even, underspent or overspent. Information on how forecast overspends will be mitigated is given in Appendix 4. If the project is completed, any underspend or overspend will be an outturn variance. Generally, only explanations of significant forecast variances of £0.050m or greater are given.

ii) Budget Variations: These are changes to the project budget within year, requiring members' approval, and do not change future year projections. The main reason for budget variations is where capital grant or external income changes in year.

iii) Slippage: This indicates whether or not a scheme or project is on schedule. Slippage of expenditure from one year into another will generally indicate overall delays to a project although some projects can 'catch up' at a later date. Some slippage is normal due to a wide variety of factors affecting capital projects however substantial amounts of slippage across a number of projects could result in the council losing capital resources (e.g. capital grants) or being unable to manage the cashflow or timing impact of later payments or related borrowing. Wherever possible, the council aims to keep slippage below 5% of the total capital programme.

iv) Reprofiling: Reprofiling of expenditure from one year into another is requested by project managers when they become aware of changes or delays to implementation timetables due to reasons outside the council's control. Reprofiling requests are checked in advance by Finance to ensure there is no impact on the council's capital resources before they are recommended to Policy & Resources.

v) IFRS changes: These accounting changes are necessary for the council to comply with International Financial Reporting Standards (IFRS) for the Statement of Accounts. This concerns the determination of items of expenditure as either capital or revenue expenditure. Only items meeting the IFRS definition of capital expenditure can be capitalised; expenditure not meeting this definition must be charged to the revenue account. This accounting exercise is undertaken as part of the closure of accounts process and therefore IFRS changes only appear in the outturn TBM report. Where significant changes have occurred an explanation is contained in Appendix 4.

3.20 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall underspend of £0.213 m which is detailed in Appendix 4.

| Month 9 Forecast Variance £'000 | **Capital Budgets** | 2013/14 Budget Month 12 £'000 | Provisional Outturn Month 12 £'000 | Provisional Variance Month 12 £'000 | Provisional Outturn Month 12 % |
|---|---|---|---|---|---|
| 0 | Children's Services | 19,041 | 19,034 | (7) | 0.0% |
| 0 | Adult Services | 2,222 | 2,225 | 3 | 0.1% |
| 0 | Environment, Development & Housing – General Fund | 17,847 | 17,801 | (46) | -0.3% |
| (435) | Environment, Development & Housing - HRA | 28,603 | 28,530 | (73) | -0.3% |
| (160) | Assistant Chief Executive | 8,005 | 7,991 | (14) | -0.2% |
| (32) | Finance, Resources & Law | 6,063 | 5,987 | (76) | -1.3% |
| (627) | Total Capital | 81,781 | 81,568 | (213) | -0.3% |

(Note: Summary may include minor rounding differences to Appendix 4)

3.21 Appendix 4 shows the changes to the budget and Appendix 5 provides details of new schemes for 2014/15 to be added to the capital programme. Policy & Resources Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval in the Month 9 report.

| Capital Budget Movement<br><br>Summary | 2013/14 Budget £'000 |
|---|---|
| Budget approved at Month 9 | 93,330 |
| Changes reported through other Committees | 314 |
| IFRS/Other Changes (to be noted) | (1,398) |
| Reprofiling to Budget (to be approved) | (7,679) |
| Slippage (to be approved) | (2,786) |
| **Total Capital** | **81,781** |

3.22 Appendix 4 also details any slippage into next year. In total, project managers have forecast that £2.786m of the capital budget may slip into the next financial year and this equates to 3.4% of the reprofiled budget.

**Implications for the Medium Term Financial Strategy (MTFS)**

3.23 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy & Resources Committee and Full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.

3.24 The forecast outturn position at Month 9 is a key factor in the budget setting process. At Month 9, TBM showed a forecast overspend of £0.939m. This was accounted for in assessing the level of one-off resources available to support the 2014/15 budget. At provisional outturn, this has now improved to a position of £1.085m underspend. This means that there is no impact on the 2014/15 one-off resource assumptions and provides an additional £2.024m to support future budget planning.

Capital Receipts Performance

3.25 Capital receipts are used to support the capital programme. For 2013/14 a total of £11.149m capital receipts (excluding 'right to buy' sales) have been received in connection with the completion of the disposal of Amex House, the Ice Rink at Queens Square, the caretaker's house at Westdene Primary School, 110 The Highway, The Cottage at Easthill and the sale of the Council's civic car number plate.

3.26 The Government receives a proportion of the proceeds of 'right to buy' sales with a proportion required by the council to repay debt; the remainder is retained by the council and used to fund the capital programme. The total net usable receipts from 'right to buy' sales in 2013/14 is £4.346m including £3.923m available for replacement homes.

3.27 A total of £3.163m receipts from the housing Local Delivery Vehicle (LDV) have been received in 2013/14. The net receipts are ring-fenced to support investment in council owned homes.

Collection Fund Performance

3.28 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police and East Sussex Fire Authority whereas any forecast deficit or surplus relating to business rates is shared between, the council, government and East Sussex Fire Authority.

3.29 The collection fund surplus position at 31st March 2014 on council tax is (£1.925m) and the council's share of this is (£1.644m). This includes the brought forward surplus from 2012/13 of (£0.497m) and the majority of the remaining surplus relates to a lower than budgeted caseload on council tax reduction discounts (£1.162m) and increased liability from new properties. The surplus is lower than anticipated in January due to some unexpected band reductions that have been backdated several years and unoccupied exemptions.

3.30 The surplus on the collection fund for business rates at 31st March 2014 is (£11.347m) and the council's share of this is (£5.560m). However after allowing for repayment of the Safety Net grant of £3.970m the council's share of the surplus reduces to (£1.590m). The council has now received vastly improved information from the Valuation Office on both outstanding and settled appeals. This data has been analysed in detail to show what has happened in each financial year starting in 2005/06 in relation to the 2005 and 2010 valuation lists. This analysis shows that the number of appeals is on a downward trend. There are significantly less appeals against the 2010 list than at the equivalent time in 2005 and the proportion of successful appeals and the consequent reduction in rateable value is not as high as anticipated when the budget was set. In addition, appeals relating to material change of circumstance are not on average backdated as far as originally thought. All of these changes mean that the level of successful appeals that occurred during 2013/14 and the provision for future successful appeals is well below the level originally budgeted and the council no longer needs support from the Safety Net. This will provide the council with additional resources in future years.

3.31 In the short term, the repayment of the Safety Net will create an accounting anomaly in that the council will need to recognise a creditor for this sum owing to Central Government. This will require matching resources which will be met from the council's General Fund balance of £9m. The debtor will be reversed, partly in 2014/15 and fully in 2015/16, replenishing the General Fund balance accordingly. This accounting treatment will be dealt with in the Financial Statements and detailed in full in the Financial Statements and accompanying report to Audit & Standards Committee.

3.32 The financial impact of the outturn position on the collection fund will be incorporated into the January 2015 calculation of the forecast outturn position for 31st March 2015 which forms part of the 2015/16 budget calculations.

## 4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The provisional outturn position on council controlled budgets is an underspend of £1.190m. In addition, the council's share of the provisional overspend on NHS managed Section 75 services is £0.105m. The underspend of £1.085m will be added to general reserves and the £0.939m set aside in general reserves to fund the expected overspend at TBM 9 will also be released giving a total of £2.024m additional one-off resources available to aid budget planning for future years. Recommendations for the use of these resources is given in the report on the Governance of Value for Money Phase 4 which is also on this Policy & Resources Committee agenda.

## 5 COMMUNITY ENGAGEMENT & CONSULTATION

5.1 No specific consultation has been undertaken in relation to this report.

## 6 CONCLUSION AND COMMENTS OF THE DIRECTOR OF FINANCE (S151 OFFICER)

6.1 The underlying position at outturn has improved considerably since month 9 with improvements being seen across a range of services. There are three significant contributing factors. The first is an underspend on the Public Health Grant, part of which has been used to offset eligible Adult Social Care expenditure. The underlying trends on the Adult Social Care budget remain concerning and there are demanding savings targets to be achieved in 2014/15 in addition to savings not yet achieved from 2013/14. There is a request to carry forward the remainder to 2014/15 in order to ensure that the ring fenced grant conditions can be met. The underspend was caused partly by lower than anticipated costs on NHS sexual health contracts and also money set aside because of concerns about the responsibility for certain prescribing costs which has now been resolved in the council's favour. A close review of the Public Health budget commitments in 2014/15 and beyond may provide some additional flexibility for the council in its budget planning, particularly ensuring investment in preventative services can be sustained.

6.2 The second key change since month 9 has been lower than expected expenditure on homelessness. Additional service pressure funding was provided in 2013/14 because of concerns about the impact of rising temporary housing costs, lower local housing allowance rates and the broader impact of welfare reform. It is too early to tell whether the more modest impact will continue into 2014/15 but this will remain closely scrutinised as a corporate critical budget.

6.3 Thirdly the council received notification of an additional £0.400m government grant funding in the last week of the financial year. This is because the government had top-sliced too much grant funding for capitalisation costs. This had been repeatedly raised by the council and the Local Government Association (LGA) but was not recognised until very close to the year end. While this is welcome additional resourcing it could not have been forecast any earlier.

6.4 Collective management of the financial position has therefore ensured that the council has remained within budget with an underspend variance of less than 1%, ensuring that resources have been used for the purposes for which they were allocated.

6.5 A detailed explanation has been provided for the change in the income from business rates predominantly because a much lower provision for appeals has been needed. The challenge of forecasting the business rates income in year 1 of a major new funding model has been reported to members on many occasions. The positive news is that the clarity of information from the Valuation Office has improved dramatically over the year which will help future forecasting although we still only have limited experience of monitoring this income in this way. More importantly for the council's overall financial position is that the taxbase itself is in a stronger position than previously anticipated and a further update will be provided in July as part of the Budget Update report.

6.6 As mentioned earlier, recommendations for the use of these resources are given in the report on the Governance of Value for Money Phase 4 which is also on this Policy & Resources Committee agenda.

## 7 FINANCIAL AND OTHER IMPLICATIONS

Financial Implications:

7.1 The financial implications are covered in the main body of the report.

*Finance Officer Consulted: Jeff Coates Date: 29/05/14*

Legal Implications:

7.2 Decisions taken in relation to the budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

*Lawyer Consulted: Oliver Dixon Date: 16/05/14*

Equalities Implications:

7.3 There are no direct equalities implications arising from this report.

Sustainability Implications:

7.4 There are no direct sustainability implications arising from this report.

Risk and Opportunity Management Implications:

7.5 The Council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

## SUPPORTING DOCUMENTATION

**Appendices:**

1. Revenue Budget Performance
2. Carry Forward Requests
3. Value for Money Programme Performance
4. Capital Programme Performance
5. New Capital Schemes

**Documents in Members' Rooms:**

None.

**Background Documents**

None.