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|--------------------------|---|---|---------------------|
| <b>Subject:</b>          | <b>Targeted Budget Management (TBM) 2014/15<br/>Month 7</b> |   |                     |
| <b>Date:</b>             | <b>4 December 2014</b>                                      |   |                     |
| <b>Report of:</b>        | <b>Executive Director of Finance &amp; Resources</b>        |   |                     |
| <b>Contact Officer:</b>  | <b>Name:</b>  | <b>Jeff Coates</b>                      | <b>Tel: 29-2364</b> |
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| <b>Ward(s) affected:</b> | <b>All</b>  |   |                     |

## **FOR GENERAL RELEASE**

Note: The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that some of the key financial information was not available at the time of publication.

### **1 SUMMARY 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 forecast outturn position as at Month 7 on the council's revenue and capital budgets for the financial year 2014/15.
- 1.2 The TBM Month 5 forecast indicated significant potential pressures and forecast overspending. Month 7 shows an improvement to the position overall at just past the mid-point of the year but there remain significant pressures and forecast risks to manage across the General Fund Revenue Budget.

### **2 RECOMMENDATIONS:**

- 2.1 That the Committee note the forecast outturn position for the General Fund, which is an overspend of £4.368m. This consists of £4.052m on council controlled budgets and £0.316m on the council's share of the NHS managed Section 75 services.
- 2.2 That the Committee note that there is a further £1.890m of as yet unallocated risk provision that could be used to mitigate against this overspend.
- 2.3 That the Committee note the forecast outturn for the Housing Revenue Account (HRA), which is an underspend of £0.156m.
- 2.4 That the Committee note the forecast outturn position for the Dedicated Schools Grant which is an underspend of £1.115m.
- 2.5 That the Committee note the forecast outturn position on the capital programme.

2.6 That the Committee approve the capital programme variations and reprofiles in Appendix 3 and new capital schemes in Appendix 4 .

### 3 RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

#### 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.

| Forecast<br>Variance<br>Month 5<br>£'000 | Directorate  | 2014/15<br>Budget<br>Month 7<br>£'000 | Forecast<br>Outturn<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>% |
|--|--|---------------------------------------|---|--|--------------------------------------|
| 1,226                                    | Children's Services  | 57,603                                | 58,262                                  | 659                                      | 1.1%                                 |
| 4,078                                    | Adult Services   | 63,857                                | 67,411                                  | 3,554                                    | 5.6%                                 |
| (201)                                    | Environment, Development & Housing                         | 41,862                                | 42,191                                  | 329                                      | 0.8%                                 |
| 210                                      | Assistant Chief Executive                                  | 17,362                                | 17,594                                  | 232                                      | 1.3%                                 |
| 0  | Public Health (incl. Community Safety & Public Protection) | 4,558                                 | 4,530                                   | (28)                                     | -0.6%                                |
| (442)                                    | Finance, Resources & Law                                   | 31,710                                | 31,038                                  | (672)                                    | -2.1%                                |
| 4,871                                    | Sub Total  | 216,952                               | 221,026                                 | 4,074                                    | 1.9%                                 |
| 148                                      | Corporate Budgets  | 3,613                                 | 3,591                                   | (22)                                     | -0.6%                                |
| 5,019                                    | Total Council Controlled Budgets                           | 220,565                               | 224,617                                 | 4,052                                    | 1.8%                                 |

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.

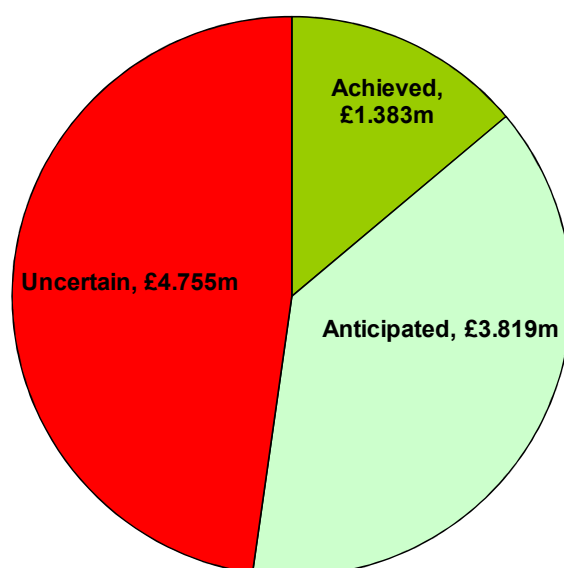
| Forecast<br>Variance<br>Month 5<br>£'000 | <b>Corporate Critical</b>  | 2014/15<br>Budget<br>Month 7<br>£'000 | Provisional<br>Outturn<br>Month 7<br>£'000 | Provisional<br>Variance<br>Month 7<br>£'000 | Provisional<br>Variance<br>Month 7<br>% |
|--|----------------------------|---------------------------------------|--|---|---|
| 1,610                                    | Child Agency & In House    | 19,515                                | 21,141                                     | 1,626                                       | 8.3%                                    |
| 2,452                                    | Community Care             | 41,145                                | 43,922                                     | 2,777                                       | 6.7%                                    |
| (330)                                    | Sustainable Transport      | (16,325)                              | (16,575)                                   | (250)                                       | -1.5%                                   |
| (227)                                    | Temporary<br>Accommodation | 1,592                                 | 1,441                                      | (151)                                       | -9.5%                                   |
| (485)                                    | Housing Benefits           | (613)                                 | (813)                                      | (200)                                       | -32.6%                                  |
| 3,020                                    | Total Council Controlled   | 45,314                                | 49,116                                     | 3,802                                       | 8.4%                                    |

Value for Money (VfM) Programme (Appendix 2)

3.6 Policy & Resources Committee received a report on the next stage of the council’s Value for Money Programme (Phase 4) at the committee’s June meeting. The savings and resources attached to Phase 4 for future years are being refined as part of the budget setting process although some part-year savings are expected in 2014/15. In the meantime, current Phase 3 VfM projects will continue with the savings targets identified and approved by Council as part of the 2014/15 budget.

3.7 VfM projects generally 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 quantifies progress in terms of those savings that have been achieved, those that are anticipated to be achieved (i.e. low risk) and those that remain uncertain (i.e. higher risk). The chart below shows that there is continuing risk in relation to social care related VfM workstreams. More detail is provided in Appendix 2.

## Value for Money Programme (All Phases) - 2014/15 Monitoring



VfM Target 2014/15 = £9.917m

### Housing Revenue Account Performance (Appendix 1)

- 3.8 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 forecast outturn on the HRA is summarised in the table below. More detail is provided in Appendix 1.

| Forecast Variance Month 5 £'000 | HRA                    | 2014/15 Budget Month 7 £'000 | Forecast Outturn Month 7 £'000 | Forecast Variance Month 7 £'000 | Forecast Variance Month 12 % |
|---------------------------------|------------------------|------------------------------|--------------------------------|---------------------------------|------------------------------|
| (256)                           | Expenditure            | 58,946                       | 59,329                         | 383                             | 0.6%                         |
| 9                               | Income                 | (58,946)                     | (58,885)                       | 61                              | 0.1%                         |
| <b>(247)</b>                    | <b>Net Expenditure</b> | <b>0</b>                     | <b>444</b>                     | <b>444</b>                      | <b>0.0%</b>                  |
| 0                               | Transfer from Reserves | 0                            | (600)                          | (600)                           |                              |
| <b>(247)</b>                    | <b>Total</b>           | <b>0</b>                     | <b>(156)</b>                   | <b>(156)</b>                    |                              |

### Dedicated Schools Grant Performance (Appendix 1)

- 3.9 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 current forecast is an underspend of £1.115m 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)

- 3.10 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.
- 3.11 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 5<br>Forecast<br>Variance<br>£'000 | Section 75                     | 2014/15<br>Budget<br>Month 7<br>£'000 | Forecast<br>Outturn<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>% |
|--|--------------------------------|---------------------------------------|---|--|--------------------------------------|
| 200                                      | NHS Trust managed S75 Services | 11,951                                | 12,267                                  | 316                                      | 2.6%                                 |

### Capital Programme Performance and Changes

- 3.12 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall underspend of £0.588m forecasted at this stage.

| Forecast<br>Variance<br>Month 5<br>£'000 | Capital Budgets                                   | 2014/15<br>Budget<br>Month 7<br>£'000 | Forecast<br>Outturn<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>£'000 | Forecast<br>Variance<br>Month 7<br>% |
|--|---|---------------------------------------|---|--|--------------------------------------|
| 0  | Children's Services                               | 19,961                                | 19,961                                  | 0  | 0.0%                                 |
| 0  | Adult Services                                    | 628                                   | 628                                     | 0  | 0.0%                                 |
| 0  | Environment, Development & Housing - General Fund | 23,596                                | 23,596                                  | 0  | 0.0%                                 |
| 332                                      | Environment, Development & Housing - HRA          | 30,989                                | 30,401                                  | (588)                                    | -1.9%                                |
| 0  | Assistant Chief Executive                         | 12,770                                | 12,770                                  | 0  | 0.0%                                 |
| 0  | Public Health                                     | 447                                   | 447                                     | 0  | 0.0%                                 |
| 0  | Finance, Resources & Law                          | 9,295                                 | 9,295                                   | 0  | 0.0%                                 |
| 0  | Corporate Services                                | 25                                    | 25                                      | 0  | 0.0%                                 |
| 332                                      | Total Capital                                     | 97,711                                | 97,123                                  | (588)                                    | -0.6%                                |

- 3.13 Appendix 3 shows the changes to the budget and Appendix 4 provides details of new schemes to be added to the capital programme which are included in the budget figures above. 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 5 report.

| <b>Capital Budget Summary</b>                                 | 2014/15<br>Budget<br>£'000 |
|---|----------------------------|
| Budget Approved at Month 5                                    | 103,911                    |
| Reported at other Policy & Resources committees since Month 5 | 0                          |
| New schemes to be approved in this report (see Appendix 4)    | 228                        |
| Variations (to be approved - see Appendix 3)                  | (73)                       |
| Reprofiles (to be approved - see Appendix 3)                  | (6,056)                    |
| Slippage (to be approved - see Appendix 3)                    | (299)                      |
| <b>Total Capital Budget</b>                                   | <b>97,711</b>              |

- 3.14 Appendix 3 also details any slippage into next year. In total, project managers have forecast that £0.299m of the capital budget may slip into the next financial year and this equates to 0.31% of the budget.

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

- 3.15 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.
- 3.16 Details of risk provisions currently held are given in the Corporate Budgets section of Appendix 1. At this stage of the year no further risk provisions are recommended to be deployed as mitigating actions and recovery plans need to be implemented before re-assessing the financial position and the level of forecast risk.

### Capital Receipts Performance

- 3.17 Capital receipts are used to support the capital programme. Any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Asset Management Fund, ICT Fund and the Workstyles VFM projects. The planned profile of capital receipts for 2014/15, as at Month 07, is £7.208m against which there have been receipts of £0.979m in relation to the disposal of 18 Market Street, a deposit for the Preston Barracks project, a lease extension at Warren Way, a number of minor lease extensions at the Marina and the repayment of improvement grants.

- 3.18 The forecast for the 'right to buy sales' 2014/15 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 60 homes will be sold with a maximum useable receipt of £0.474m to fund the corporate capital programme and net retained receipts of £2.727m are available to re-invest in replacement homes. To date 31 homes have been sold in 2014/15.

#### Collection Fund Performance

- 3.19 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.

The collection fund surplus position at 31st March 2014 on council tax was £1.925m and the council's share of this was £1.644m. This was £0.243m lower than anticipated when setting the 2014/15 budget. However it is estimated that increased council tax income in the current financial year will offset this shortfall and therefore a break even position is currently forecast for 31st March 2015.

- 3.20 The council's share of the surplus on the collection fund for business rates at 31 March 2014 was £1.590m after taking into account the repayment of Safety Net Grant. These resources will be available when setting the 2015/16 budget. The 2014/15 business rates income assumption included projected growth of 0.5% in rateable value as well as a further 1.0% increase through a review of the register. On the basis of the information available so far in this financial year the position is in line with expectations. However this remains a difficult area to predict with great certainty.

#### **4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS:**

- 4.1 The provisional outturn position on council controlled budgets is an overspend of £4.052m. In addition, the council's share of the forecast overspend on NHS managed Section 75 services is £0.316m. Any overspend at the year end will need to be funded from general reserves which would then need to be replenished to ensure that the working balance did not remain below £9.000m. Any underspend would release one off resources that can be used to aid budget planning for 2014/15.

#### **5 COMMUNITY ENGAGEMENT AND 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 Month 7 position, although improved, still shows a significant level of forecast financial risk that must be urgently attended to, particularly in relation to Adult Social Care and Children's Services. The trends on the corporate critical budgets for Community Care and for Looked After Children continue to give cause for concern. While there are some mitigating actions and recovery plans in place it is not clear that these will make sufficient impact on the forecast risk to ensure a break even position at year end.

- 6.2 The Executive Leadership Team (ELT) will keep the position under close scrutiny and will take appropriate action to reduce spending, manage vacancies and develop financial recovery plans where necessary.

## **7 FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

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

*Finance Officer Consulted: Jeff Coates*

*Date: 18/11/2014*

### 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: 18/11/2014*

### 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. Value for Money Programme Performance
3. Capital Programme Performance
4. New Capital Schemes

### **Documents in Members' Rooms:**

None.

### **Background Documents**

None.

