

Mayor and Cabinet		
<b>Report Title</b>	Financial forecasts for 2012/13	
<b>Key decision</b>	No	Item No.
<b>Ward</b>	N/A	
<b>Contributors</b>	EXECUTIVE DIRECTOR FOR RESOURCES & REGENERATION	
<b>Class</b>	Part 1	Date: January 16 2013

## 1 Summary of the Report

1.1 This report sets out the financial forecasts for 2012/13 as at 31 October 2012. The key areas to note are:

- An underspend of £1.6m against the directorates' net general fund revenue budget is now forecast, significantly improved from the £0.9m projected last month
- The decline experienced in council tax collection in September 2012 has been partially reversed in October. Collection is now ahead of the amount at the same point last year again, although still below the profiled target for the year, pointing to a collection rate for the year of around 95%.
- Capital expenditure in October was below the average monthly spend for the six months to September, and the forecast outturn for the year has been reduced by £17m.

### Other key messages are that:

- The Housing Revenue Account (HRA) is projecting an underspend of £0.7m
- The Dedicated Schools Grant (DSG) is forecast to be spent to budget
- 97% of the £16.6m savings agreed in setting the 2012/13 budget are forecast to be delivered on schedule
- Business rates collection is 1.3% higher than the same period last year and the target of 98.5% for the year should be achieved.

## 2 Purpose of the Report

2.1 To set out the financial forecasts for 2012/13.

## 3 Recommendations

3.1 To note the financial forecasts for the year ending 31 March 2013.

## 4 Policy Context

- 4.1 Reporting financial results in a clear and meaningful format contributes directly to the council's tenth corporate priority: inspiring efficiency, effectiveness and equity.

## 5 Overall directorate outturn

- 5.1 The forecasts against the directorates' general fund revenue budgets are shown in the table below. Expenditure controls through Directorate Expenditure Panels (DEPs) remain in place. This tight control helped to deliver an underspend in 2011/12.
- 5.2 The forecast underspend as at 30 September 2012 was £0.9m, and this has improved to £1.6m as at 31 October 2012.
- 5.3 The forecast overspend of £1.0m in Customer Services is down by £0.1m since last month. The current forecast is now 30% down from the £1.5m reported at the start of the year but there is no clear evidence that the remaining £1m will be addressed this year.

Directorate	Gross budgeted spend	Gross budgeted income	Net budget	Forecast over/(under) spend
	£'000	£'000	£'000	£'000
CYP (1)	104,217	(39,006)	65,211	(892)
Community Services	164,030	(49,813)	114,217	(501)
Customer Services (2)	93,802	(61,806)	31,996	1,035
Resources & Regeneration	62,649	(14,710)	47,939	(1,244)
<b>Directorate total</b>	<b>424,698</b>	<b>(165,335)</b>	<b>259,363</b>	<b>(1,602)</b>
<b>Corporate items</b>			<b>9,146</b>	
<b>Budget requirement</b>			<b>268,509</b>	

- (1) – gross figures exclude £252m Dedicated Schools' Grant expenditure and matching grant income  
 (2) – gross figures exclude £236m matching income and expenditure for housing benefits

- 5.3 The table below sets out the proportion of agreed savings delivered in the year. Any variances are included in the overall forecasts shown in the table above.

Directorate	Savings agreed for 2012/13	Forecast delivery	Variance	
	£'000	£'000	£'000	%
CYP	4,394	4,394	0	0
Community Services	4,610	4,610	0	0
Customer Services	3,528	3,128	400	11.3
Resources & Regeneration	2,954	2,954	0	0
Fees & Charges	1,068	977	91	8.5
<b>Total</b>	<b>16,554</b>	<b>16,063</b>	<b>491</b>	<b>3.0</b>

- 5.4 In October 82 (6% of total) purchase orders were raised on the same day or after the relevant invoice was received in the Council (after adjusting for suppliers like Office Depot where this is built into the agreed procedures). This indicates a control weakness that needs to be addressed in order to continue to manage expenditure downwards. In September there were 50 purchase orders raised in this fashion. The increase relates mainly to CYP where a backlog of invoices was paid.

## 6 Children and Young People's Services

- 6.1 The forecast underspend for the year is £0.9m, improved from the £0.6m underspend forecast in September 2012.

CYP division	Gross expenditure	Govt grants	Other income	Net budget	Forecast over / (under) spend
	£'000	£'000	£'000	£'000	£'000
Children's Social Care	48,050	(1,059)	(733)	46,258	(517)
Standards and Achievements	4,991	(554)	(1,889)	2,548	(23)
School Infrastructure	2,120	0	(15)	2,105	0
Commissioning, Strategy & Performance	3,753	(910)	(342)	2,501	(50)
Access & Support	15,346	(219)	(3,713)	11,414	0
Resources	29,957	(14,508)	(13,738)	1,711	(302)
Schools	0	0	(1,326)	(1,326)	0
<b>Total</b>	<b>104,217</b>	<b>(17,250)</b>	<b>(21,756)</b>	<b>65,211</b>	<b>(892)</b>

- 6.2 The main budget pressure is £0.4m, in respect of the placements for Looked after Children (LAC). This is net of planned management action to move placements towards lower cost areas such as fostering, where this is appropriate to the needs of the child. There were 486 placements as at 31 October 2012, as against 489 as at 30 September 2012 and 491 at 31 March 2012.
- 6.3 It is expected that this pressure can be offset by reducing staffing costs by £0.4m over the year through grant substitution and reduction in the number of agency staff and savings of £0.5m on supplies and services budgets including short breaks.
- 6.4 Other services within the directorate operate complex budgets which are nonetheless lower risk than for children's social care. General underspends of £0.3m are expected to be delivered within the Resources area, through continued application of the DEP process and other controls in order to offset the pressures on the placement budget and enable the directorate to forecast an underspend of £0.9m.

## 7 Community Services

7.1 The forecast underspend for the year is £0.5m, improved from the £0.4m underspend forecast last month.

Community Services division	Gross expenditure budget	Gross income budget	Net budget	Forecast over/ (under) spend
	£'000	£'000	£'000	£'000
Cultural Services	16,532	(7,180)	9,352	568
Adult Services	110,380	(34,139)	76,241	18
Community & Neighbourhood Development	8,501	(325)	8,176	(392)
Crime Reduction & Supporting People	26,738	(7,081)	19,657	(1,038)
Strategy & Performance	2,287	(112)	2,175	(3)
Community Reserves	0	(1,384)	(1,384)	346
<b>Total</b>	<b>164,438</b>	<b>(50,221)</b>	<b>114,217</b>	<b>(501)</b>

7.2 The total net directorate budget has not changed last month although divisional totals have changed as allocations have been made from the Community Provisions budget to Cultural Services (Deptford Lounge) and adult social care (transport). Additionally, budgets have been set up to reflect both one-off expenditure in the library service and the contribution set aside in reserves at the end of 2011/12 to fund these costs.

7.3 The forecast overspend in cultural services of £0.6m (down from £0.8m last month) reflects the following pressures:

- £0.3m representing the difference between the cost of the new leisure contract and the budget in the current year (this will reduce next year as the contract value falls).
- Additional pressures due to R&M and other works to leisure centres of around £0.3m.
- Costs of Deptford Lounge exceeding the allocated budget by £0.1m. This is due to costs incurred in 2011/12 not being charged to the Directorate's budget until the current financial year.

7.4 There are other minor underspends of £0.1m on the CEL budget, and some other minor pressures throughout the division.

7.5 Adult Social Care is forecast to spend to budget, after taking into account health funding of £2.4m. It is not yet clear whether this funding will recur in future years, and the risk of it not recurring increases beyond 2014/15. Within the service there are some forecast under and over spends as set out below.

7.6 The balance of purchased provision for older people continues to shift from residential/nursing to home-based provision. At the start of the year home care/direct payments represented 40.4% of total cost; by October this had increased to 42.1%.

7.7 Despite this shift, there are overspends totalling £0.3m on placement budgets for younger adults services within safeguarding, quality and risk. Within Assessment & Support Planning the overspend on home care budgets has increased following the annual price increase and the service is now projecting

a £0.3k overspend. However the modernisation budget is now projected to underspend by £0.6m.

- 7.8 Mental health budgets are forecast to be £0.1m overspent with pressures on salaries, residential care and supported accommodation. Action to contain these pressures has included reducing the number of residential service users from 89 as at 31 March 2012 to 75 as at 31 October 2012.
- 7.9 Budgets for learning disability are now projected to overspend by £0.5m, but the staffing savings in day opportunities have increased to £0.5m.
- 7.10 The Community & Neighbourhood Development budget is forecast to be underspent by £0.4m, a further increase on last month's position.
- 7.11 The £0.3m underspend forecast on the voluntary sector grants budget is mainly due to slippage in allocation of the Investment Fund element. The investment fund has taken a developmental approach to working with third sector organisations around priority areas. This approach has required a longer lead in than a traditional grant aid programme and therefore the spend has been profiled over the two and a half year programme with a higher percentage of spend planned to take place in 2013/14. An estimated £0.7m of the investment fund will be spent in 2012/13 made up of £0.5m drawn down from reserves and £0.2m from the 2012/13 budget. All spend on the two and half year programme is currently forecast to be allocated by 31 March 2014.
- 7.12 There are other minor offsetting over and under spends forecast within the division, including in respect of the localities fund.
- 7.13 Crime Reduction & Supporting People is now projecting an increased underspend of £1.0m. Within these reductions, £0.7m has been achieved by recommissioning of supporting people contracts representing early part achievement of savings proposed for 2013/14. Similarly an underspend of £0.2m from fewer Drug & Alcohol Service rehabilitation placements is a saving proposed for next year. There is one further budget underspend on the Youth Offending Service (£0.1m). This is due to fewer secure remand placements than expected; approval will be sought to carry forward any underspend on this budget as transfers of responsibilities from the Youth Justice Board without sufficient additional funding are expected to create a cost pressure in this area from 2013/14 onwards.

## 8 Customer Services

- 8.1 The Customer Services Directorate's projected overspend has decreased slightly from £1.1m to £1.0m

Customer Services division	Gross expenditure budget	Gross income budget	Net budget	Forecast over/(under) spend
	£'000	£'000	£'000	£'000
Strategic Housing and Regulatory services	11,809	(7,420)	4,389	0
Environment	42,133	(20,699)	21,434	476
Public Services *	38,089	(33,447)	4,642	639
Strategy & Performance	1,771	(240)	1,531	(80)
<b>Total</b>	<b>93,802</b>	<b>(61,806)</b>	<b>31,996</b>	<b>1,035</b>

\* excludes £236m of matching income and expenditure in respect of housing benefits

- 8.2 Within the Strategic Housing and Regulatory Services division there are spending pressures of £0.2m within the housing needs service, including cases where the cost of provision is above the housing benefit cap. Underspends of £0.1m within business regulatory services and housing strategy largely offset this, with other minor over and under spends bringing the forecast back to budget.
- 8.3 The Environment Division is forecasting an overspend of £0.5m, down from £0.6m last month. The principal issues are:
- A forecast overspend of £0.3m on staffing and transport costs within the street management division, similar to the outturn in 2011/12
  - A forecast overspend of £0.2m within strategic waste management, largely as a result of SELCHP fees for waste disposal
  - A forecast overspend of £0.1m in respect of Green Scene budgets, largely in respect of income shortfalls in Beckenham Place Park and pest control.

The Environment division are currently reviewing all non staffing and non contractual spending commitments with a view to reducing the overspend. To date, a number of savings have been identified throughout the directorate. These, however, have been partly offset by essential maintenance work within Bereavement Services and the cost of an investigation in respect of works carried out by Network Rail. The net effect of this action has resulted in a £100k improvement on the forecast outturn position this month.

- 8.4 An overall £0.6m overspend is forecast within Public Services. Parking income budgets are forecast to exceed the budget by £0.1m as a result of additional resources being deployed to focus on collection. This is proving to be successful with the projected outturn on fines increasing for the fourth month in a row.
- 8.5 The re-letting of the parking contract was agreed to be delayed, in order to align the re-let with other priorities. As anticipated, this gives rise to a forecast overspend of £0.5m, as planned savings will be delivered late. In addition, other non contractual costs, including increased legal costs in relation to fines income collection, are forecast to be overspent by £0.2m giving a net overspend of £0.6m.

## 9 Resources and Regeneration

- 9.1 The Resources and Regeneration Directorate is forecasting an underspend of £1.2m, compared to the £1.0m reported last month.

Resources & Regeneration Division	Gross expenditure budget	Gross income budget	Net budget	Forecast over/ (under) spend
	£'000	£'000	£'000	£'000
Audit & Risk	5,529	(2,383)	3,146	(130)
Corp Policy & Governance	3,234	(77)	3,157	(219)
Finance	6,336	(1,152)	5,184	(320)
Executive Office	345	0	345	(88)
Personnel & development	3,842	(283)	3,559	(228)
Legal Services	2,976	(444)	2,532	(93)
Strategy	3,243	(409)	2,834	(146)
IMT	9,737	(1,272)	8,465	190
Planning & Development	4,057	(1,761)	2,296	(1)
Regen & Asset M'gement	22,811	(5,191)	17,620	(217)
Strategy & Performance	539	(61)	478	(89)
Reserve transfers	0	(1,677)	(1,677)	97
<b>Total</b>	<b>62,649</b>	<b>(14,710)</b>	<b>47,939</b>	<b>(1,244)</b>

- 9.2 The risks highlighted earlier in the year in the IMT budget have been significantly mitigated. The initial forecast overspend of £0.8m has now been significantly reduced through focused management action. The remaining forecast overspend of £0.2m, whilst still of concern, is planned to be managed down further by continuing printing restrictions. However, contractual obligations in place might prevent the overspend being eliminated in the current year.
- 9.3 The previously forecast overspend within the Regeneration & Asset Management division has now been eliminated and an underspend is now reported. However pressures remain and these are principally in respect of repairs and maintenance, energy costs and one off redundancy costs. These are being offset against underspends elsewhere within the division mainly in relation to the highways budgets including street lighting.
- 9.4 Other key underpends include Personnel & Development where an underspend on learning and development is being reported and Finance where there have been fewer calls on the directorate contingency budget. Generally across the directorate there are a number of vacant posts that are being maintained in anticipation of reorganisations that are either planned or underway. These combined with expenditure controls on non salaried expenditure have enabled an overall forecast underspend of £1.2m to be reported.

## 10 Dedicated Schools' Grant

- 10.1 The Dedicated Schools' Grant (DSG) for 2012/13 the grant was finally determined at £235.0m. The only change since then has been an increase to the pupil premium. At the start of the year it was £600 for each pupil entitled to a free school meal at any point in the past six years, but has since been increased to £623 for each such pupil.
- 10.2 The Dedicated Schools' Grant budget is as follows

	Gross Expenditure	Govt Grants	Other Income	Internal Income	Net Budget
	£'000	£'000	£'000	£'000	£'000
Individual Schools Budget	208,286	(208,286)	0	0	0
Central expenditure on education of children under 5s	6,666	0	0	(112)	6,554
Provision for pupils with SEN (including assigned resources)	13,580	(696)	(1,204)	(2)	11,678
Education out of school	7,329	0	(29)	(1,082)	6,218
Capital Expenditure from Revenue (CERA) (Schools)	3,879	0	0	0	3,879
School(specific contingencies	4,595	(36,617)	0	0	(32,022)
Other	2,476	0	(14)	(95)	2,367
Academy Recoupment	6,064	(6,064)	0	0	0
<b>Total</b>	<b>252,875</b>	<b>(251,663)</b>	<b>(1,247)</b>	<b>(1,291)</b>	<b>(1,326)</b>

- 10.3 The grant is expected to balance at the end of the financial year.
- 10.4 The main spending pressures arise from writing off the deficit at Crossways Sixth Form college following its proposed closure and the merger costs of Pendragon and Meadowgate special schools to form a new special school called Drumbeat. These costs can be covered by the use of the contingency.
- 10.5 Schools are required to provide a budget monitoring return by the 31 October. Not all of these have been received, but indications are that schools will forecast a reduction in their year-end balances from £13m to £8m. However, schools have historically, projected their year-end balances to be significantly lower than the amount actually held at the year-end, and officers currently anticipate that this pattern will continue with balances possibly remaining around the £13m mark.

## 11 Corporate Provisions

- 11.1 The Corporate financial provisions include working balances, capital expenditure charged to the revenue account (CERA) and interest on revenue balances. Overall, the budget monitoring to date indicates that the corporate financial provisions are not expected to overspend. The certainty on the outturn of these provisions will only become more apparent as we approach the year-end close down position in March 2013.



## 12 Housing Revenue Account

- 12.1 The Housing Revenue Account is currently projecting a surplus of £0.7m. This is slight reduction compared to the surplus of £0.8m reported in September.

	Gross expenditure budget	Gross income budget	Net budget	Forecast over/(under) spend
	£'000	£'000	£'000	£'000
Customer Services – Housing	11,043	(2,369)	8,674	121
Lewisham Homes managed budgets	39,668	0	39,668	0
Resources	1,766	0	1,766	0
Centrally Managed Budgets	82,166	(132,274)	(50,108)	(813)
<b>Total</b>	<b>134,643</b>	<b>(134,643)</b>	<b>0</b>	<b>(692)</b>

- 12.2 The overspend in Customer Services Housing relates to a shortfall in hostel rent and service charge income. This is due to a significantly higher than budgeted void rate. After some improvement in September the position has worsened slightly since last month as the current rate is 9.06% above the budgeted rate, this compares to 8.37% previously reported.
- 12.3 The underspend shown under centrally managed budgets mainly relates to an increase in tenants' rental and service charge income of £0.8m. This is as a result of lower than anticipated void rates of 1.73%, compared to a budgeted rate of 2% and additional income arising from slower progress in decanting arrangements in respect of regeneration schemes.

## 13 Collection Fund

- 13.1 For the first five months of the year council tax collection has been ahead of last year's comparable figure, although slightly behind the profiled target for the year. The sharp drop in collection in September 2012 has now been partially reversed, but it is still not clear what led to the fall in September or whether it will be repeated.
- 13.2 As at 31 October 2012, £58.4m of Council Tax had been collected, 59.51% of the total amount due for the year of £98.1m. This compares to a year to date collection rate of 59.18% collection as at the same time last year. It is 0.26% lower than the profiled collection rate of 59.77% if the overall target for the year of 95.5% is to be met.
- 13.3 The forecast collection for the year is therefore around 95%.
- 13.3 Business rates collection is at 71.02%, an increase of 1.3% compared to the same period last year. Given that performance has been consistently good so far this year the target of 98.5% ought to be achieved.

## 14 Capital Expenditure

- 14.1 The revised budgets for capital expenditure and resourcing are set out in the following table and fully reflect the 2011/12 outturn position and a number of changes in funding streams and expenditure profiles.

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
<b>Revised Budgets</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Community Services	3.8	1.7	0.5	0.4	0.4	<b>6.8</b>
Resources & Regeneration	18.2	7.7	3.1	3.0	3.0	<b>35.0</b>
CYP	31.6	4.5	1.2	1.2	1.2	<b>39.7</b>
CYP ( BSF	35.8	15.6	4.9	0	0	<b>56.3</b>
Customer Services	0.8	1.0	0	0	0	<b>1.8</b>
Housing (General Fund)	11.5	9.7	3.9	2.1	2.4	<b>29.6</b>
<b>Total General Fund</b>	<b>101.7</b>	<b>40.2</b>	<b>13.6</b>	<b>6.7</b>	<b>7.0</b>	<b>169.2</b>
HRA	42.1	51.0	52.1	53.3	54.4	<b>252.9</b>
<b>Total Expenditure</b>	<b>143.8</b>	<b>91.2</b>	<b>65.7</b>	<b>60.0</b>	<b>61.4</b>	<b>422.1</b>
<b>Resources</b>	<b>143.8</b>	<b>91.2</b>	<b>65.7</b>	<b>60.0</b>	<b>61.4</b>	<b>422.1</b>
<b>(Over) / Under Programming</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 14.2 Following concerns raised by Members and Directors about the lack of progress on some capital schemes, a major review exercise has now been carried out and ongoing closer monitoring has also been implemented. The table below summarises the latest forecast position for 2012/13, and shows that the forecast outturn expenditure is now £122m compared to the previously reported forecast outturn of £139m and the revised budget of £143.8m.
- 14.3 The major reason for the reduction in forecast expenditure is the rephasing of a number of the Building Schools for the Future (BSF) Schemes to reflect the current contract positions, namely Prendergast Hilly Fields, Sydenham and Brent Knoll. Approximately £12m will be incurred in 2013/14 rather than 2012/13 as originally planned. In addition, £4m of other schools' works have been rephased from 2012/13 to 2013/14.
- 14.4 Capital expenditure in October 2012 was £6m, below the average for the year to date. The percentage of the forecast outturn actually spent (as a proxy measure of progress) has improved since last month, but this is largely driven by the re-phasing referred to above: actual programme delivery has in fact slowed slightly.

	2012/13 Original Budget	2012/13 Revised Budget	2012/13 Forecast Outturn	Spend to 30 Sept 12	Spend to 31 Oct 12	%age of Forecast spent to date
	£m	£m	£m	£m	£m	%
Community Services	3.8	3.8	3.3	1.5	1.6	48
Resources & Regeneration	23.2	18.2	17.5	3.7	4.2	24
CYP	30.4	31.6	26.3	16.2	18.3	70
CYP ( BSF	35.8	35.8	21.3	6.6	7.3	34
Customer Services	3.7	0.8	0.8	0.3	0.3	38
Housing (Gen Fund)	9.9	11.5	10.7	2.5	3.1	29
<b>Total General Fund</b>	<b>106.8</b>	<b>101.7</b>	<b>79.9</b>	<b>30.8</b>	<b>34.8</b>	<b>44</b>
HRA	42.1	42.1	42.1	15.9	18.0	43
<b>Total Expenditure</b>	<b>148.9</b>	<b>143.8</b>	<b>122.0</b>	<b>46.7</b>	<b>52.8</b>	<b>43</b>

14.5 The table below summarises the accelerated spending that is needed to ensure that the latest forecast is met.

Directorate	Spend to date	Further spend needed this year to meet Forecast	Amount needed to be spent per month	Acceleration ratio (i.e. average spend required to hit forecast relative to average monthly spend to date)
	£m	£m	£m	
Community Services	1.6	1.7	0.3	1.5
Resources & Regeneration	4.2	13.3	2.7	4.4
CYP	18.3	8.0	1.6	0.6
CYP ( BSF	7.3	14.0	2.8	2.7
Customer Services	0.3	0.5	0.1	2.3
Housing (General Fund)	3.1	7.6	1.5	3.4
<b>Total General Fund</b>	<b>34.8</b>	<b>45.1</b>	<b>9.0</b>	<b>1.8</b>
HRA	18.0	24.1	4.8	1.9
<b>Total Expenditure</b>	<b>52.8</b>	<b>69.2</b>	<b>13.8</b>	<b>1.8</b>

## 15 Treasury Management

15.1 With continued concerns about the stability of the banking sector, the Council's chosen treasury management strategy is highly risk averse. The counterparty list is based on industry analysis and is narrow in that it excludes the lowest credit rated counterparties, but includes the part nationalised banks. As at the end of October 2012, the balance stood at £276m, a third of which, is placed in 'term investments' with nationalised and part nationalised institutions. The performance of our internally managed funds remains on target to at least perform in line with the Council's established benchmark for 2012/13, despite falling rates of interest. Performance will continue to be monitored closely by officers throughout the remainder of the financial year..

## **16 Financial Implications**

- 16.1 This report concerns the financial forecasts for the 2012/13 financial year. However, there are no direct financial implications in noting these.

## **17 Legal Implications**

- 17.1 The Council must act prudently in relation to the stewardship of Council taxpayers funds. The Council must set and maintain a balanced budget.

## **18 Crime and Disorder Act Implications**

- 18.1 There are no crime and disorder implications relevant to this report.

## **19 Equalities Implications**

- 19.1 There are no equalities implications relevant to this report.

## **20 Environmental Implications**

- 20.1 There are no environmental implications relevant to this report.

## **21 Conclusion**

- 21.1 If the forecast underspend of £1.6m forecast is delivered it will be a significant achievement. However, plans are still not in place to tackle the substantial overspend in the Customer Services directorate.
- 21.2 Continued slow progress on the capital programme is the other substantial concern at this stage.

## **BACKGROUND PAPERS**

None

## **APPENDICES**

None

If there are any queries on this report, please contact Conrad Hall, Head of Business Management and Service Support 0208 3148379