

LONDON BOROUGH OF BRENT

Executive - 11 July 2005

Report from the Director of Finance and Corporate Resources

For Action

Wards affected:
ALL

THE 2004/2005 PROVISIONAL REVENUE OUTTURN AND REVENUE BUDGET 2005/2006

Forward Plan ref: BFS/1

1. SUMMARY

- 1.1 This report sets out the provisional revenue outturn for 2004/2005. It shows an improvement in the position to that assumed when the 2005/2006 budget was set. All figures remain provisional and are subject to further verification and audit.
- 1.2 It reports on the latest position on the 2005/2006 Revenue Budget which was agreed by Full Council on 28th February 2005.
- 1.3 It also seeks approval for a number of virements and other budget transfers.

2. RECOMMENDATIONS

- 2.1 Note the provisional outturn.
- 2.2 To consider the requests for carry forwards detailed in Section 3.3.2.
- 2.3 Agree that all other underspendings, apart from those agreed in recommendation 2.2, will be added to balances and no other carry forwards will be agreed, unless in specific earmarked reserves.
- 2.4 Note the latest budget in Appendix B.
- 2.5 Agree the virements in Appendix C.

3. DETAIL

3.1 2004/2005 PROVISIONAL OUTTURN

- 3.1.1 The Provisional Outturn for 2004/2005 is set out in summary in Appendix A. There are 4 main columns of financial information:

- (i) The Latest Budget. Column 1)
- (ii) The Full Year Forecast presented to the Budget Setting Council meeting on 28th February. (Column 2)
- (iii) The Provisional Outturn. (Column 3)
- (iv) The Variance between columns two and three above. (Column 4)

3.1.2 The 2004/2005 Statement of Accounts will be presented shortly to General Purposes Committee. The audit of the accounts has begun and is scheduled to be completed by the end of September.

3.1.3 Appendix A shows that there has been a potential decrease in net expenditure of £3.281m compared with that forecast to the Council Meeting on 28th February 2005. This has led to a corresponding increase in balances carried forward into 2005/2006. These now amount to up to £10.346m. However, there is a significant risk that this figure could be reduced. The position therefore, remains provisional.

3.2 MAIN FEATURES OF 2004/2005 OUTTURN

3.2.1 Service Area Budgets

The main changes from the latest forecast budget are as follows:

(i) Corporate Units

(a) Revenue and Benefits

The most significant variation relates to Housing Benefit where new subsidy regulations came into force for 2004/05 and have turned out far less financially harsh on the Council than originally anticipated. Also additional resources were put into recovering benefit overpayments which led to a net improvement compared with the budget of £380k. Brent will be required to meet verification framework standards in 2005/2006 which is likely to lead to increased expenditure and loss of subsidy. A reserve has been provided to alleviate these costs amounting to £500k. These factors combined to give a net underspend of £353k.

(b) Other Corporate Units

Most of the other Corporate Units generated an underspend. Core Property's amounted to by £500k due better performance on the Commercial Portfolio as well as one off savings due to delays on major repairs in municipal portfolio buildings. As a result a transfer of £1m has been made to the repairs and maintenance reserve to facilitate a more coherent programme of planned maintenance of all Council operational stock beginning in 2005/2006. This will be linked to a rolling programme of condition surveys being undertaken and the priorities within the Corporate Asset Plan.

(ii) Education, Arts and Libraries (EAL)

There was a £705k under-spending. The main factors were as follows:

(a) Special Educational Need (SEN) Out of Borough Placements £403k saving on the budget due to more in-borough placements. This reflects a programme of investment to boost capacity within Brent.

(b) Transport

A one-off saving of £299k because Easter fell twice in 2004/2005, and hence less journeys were undertaken.

(iii) Environment

Members will be aware from previous reports the pressure the Parking Account has been under to meet its budget target. The shortfall amounted to £896k. The total overspend compared with the budget was £179k.

(iv) Housing

The underspend of £151k related primarily to the temporary accommodation budget.

(v) Social Services

There was a minor overspend of £165k on a budget of £85.6m.

3.2.2 Central Items

Most budgets were at or close to the full year forecast. There is less volatility within the central items as figures are often finalised earlier in the financial year. There are however the following significant variances:

(i) Capital Financing Charges

A saving compared with the budget of £2.058m has occurred. This is due to three main factors:

(a) *Interest earned on cash balances held*

In setting the budget an assumption of the rate of interest earned of 4.5% was made. As set out in the report on this agenda, "Annual Treasury Management Report", 4.6% was achieved. This betterment coupled with improved cash-flow gave net gains of £700k.

(b) *Full Year Impact of Debt Restructuring*

The Council continued to benefit from the major debt restructuring exercise carried out in 2003/2004 with also activity in 2004/2005. Further details are included in the Treasury Management Report. The reduction in interest falling on the General Fund amounted to £700k.

(c) *Spending on the Capital Programme*

A betterment of the target for capital receipts and some slippage in expenditure means that less of the programme is funded from borrowing and hence reducing the borrowing costs by around £650k.

(ii) Other Items

(a) *Willesden PFI*

Due to the delay in signing off the scheme, additional legal and other advisors costs of £200k were met from central items.

(b) *Settlement of Claim*

A settlement on a long running legal dispute relating to a former contract was agreed by the Executive in November. This amounted to £310k and was charged to central items.

(c) *One-off Recovery of Temporary Accommodation Debt*

There was a substantial increase in the amounts of overpayments recovered. It was particularly targeted at old debt and hence it provided a one-off gain of £875k.

3.2.3 Risks to Outturn Position

As set out above tight financial discipline has been maintained across all Service Areas during 2004/2005. However the improvement in the position at 31st March 2005 could be reduced by a number of factors including:

(a) Housing Benefit Grant Claim

Members will be aware from previous budget monitoring reports that government's financing of the Benefit system changed in 2004/2005. One aspect of this was that Local Authorities would lose grant if their error rate in processing claims exceeded a pre-set percentage. In Brent's case this was 0.48% which would result in a loss of around £600k. Partly as a result of clearing previous backlogs a number of errors, relating to 2003/2004, but processed in 2004/2005 count towards our total. We have therefore been close to the threshold throughout the financial year. This has been carefully managed and the figures submitted on the 2004/2005 grant claim show we are below

the limit. However, this will be subject to rigorous audit, and there is a risk that the threshold could be exceeded if our claim is changed by the auditors.

(b) Unaccompanied Minors and Asylum Seekers Grant

£346,000 is at risk from grant claims relating to 2002/03 and 2003/04. These claims have not been audited and there are substantial differences in who the Home Office accepts are eligible and those children Brent has provided services for. Local government associations are still making representations to the Home Office over its recently announced formula for the grants that would significantly reduce the amounts Brent is paid if implemented.

The claim for 2004/05 is currently being prepared. The basic claim does not meet the cost of providing services and without an agreed exceptional circumstances claim Brent will incur a further loss on top of the risk of £346k.

(c) Provision for Bad Debt

We are undertaking a Council-wide exercise to ensure we have a prudent level of bad debt provision across all Service Areas. In cases where this is deemed not to be sufficient additional provision will be required.

We have adopted a position consistent with previous years, whereby up to £2m of potential adjustments to the accounts might be made and has been reflected in assessing the position in 2005/2006. This is regarded as both reasonable and prudent. The final outturn will become clearer as the audit progresses and any amendments will be reported to the Executive.

3.3 TREATMENT OF UNDER/OVERSPENDINGS

3.3.1 It is the Council's policy, included in the Financial Regulations that consideration be given for allowing some part of any underspends to be released back to service areas. The extent that it is possible will depend on the overall financial position, including the pressure on capital resources. It must also be linked to specific proposals and be of a one-off nature that doesn't generate further commitments in future years.

3.3.2 The following requests for carry forwards have been received:

(i) Legal and Democratic Services

(a) By Elections

2 by-elections took place on 16th June, for which no budget had been agreed. This amounts to £18k.

(b) 2006 Council Elections

£300k has been included within the Medium Term Financial Strategy in 2006/2007, to fund the May 2006 Council Elections. However, a significant proportion of that is utilised in 2005/2006, in preparation for the election. It is recommended that the Executive makes a specific provision for the full sum in a reserve in 2005/2006. This provides the resources needed in this year and reduces pressure on the 2006/2007 budget.

(c) Legal Services

There are two requests for partial use of the £125k trading surplus on one-off items.

- £40k of costs for using a recruitment agency for the posts of Head of Contracts team and Senior Planning Lawyer due to the ongoing problems with recruiting to these positions. This will provide advertising material which can be used on future recruitment rounds.
- Archiving review project - to review archived documents and storage arrangements and destroy files in line with the file destruction policy and to investigate future methods of document storage and retrieval - £10k.

In total this amounts to £50k.

(ii) Communications and Consultation

Residents Attitude Survey

The updated survey will take place during the summer. £20k was assumed to be raised by partner agencies but no interest has been shown and the Council will be required to fully fund the work.

(iii) Park Service

Countryside Day

It is proposed to hold this event again in 2005 requiring a net budget of £34k.

3.4 2005/2006 BUDGET

Latest Budget and Virements

3.4.1 Column 1 of Appendix B sets out the 2005/2006 budget based on the structure of the Council on 28th February. Appendix C includes proposed virements which Members are asked to agree. This is an extensive list and reflects the new alignment of the Council which became effective from 4th July 2005. The creation of a Children and Families Department and an Adult and

Social Care Department has meant that a re-allocation of main service budget and support services has been undertaken. Budget responsibilities are now being aligned with the new areas of management control.

Forecast Expenditure and Risks in 2005/2006

3.4.2 Section 5 of the Budget Report in February included a detailed analysis of risks including, where no specific provision had been made. At this early stage in the financial year a number of areas of potential overspending have emerged based on activity to date in 2005/2006:

(a) Housing Benefit Deficit

A previous section of the report discussed the new subsidy regulations introduced from 1st April 2004 relating to local authority overpayments. The introduction of the first two modules of the Verification Framework from 1st April 2005, has seen a more systematic checking of claims in payment and the creation of additional overpayments when change in circumstances are apparent. This increases the risk of breaching the threshold in 2005/2006 and incurring a penalty of over £600k. This will need to be monitored very closely.

(b) Gordon Brown Outdoor Centre

There was a deficit at the end of 2004/05 of £34k. Increased costs of appointing a Head of Centre and a drop in bookings from schools, have produced a forecast deficit of £50k in 2005/2006.

(c) Parking Account

Early indicators are that there is some continuance of the problems that arose in 2004/2005. A middle case scenario arrived at from examining the various components of the Parking Account suggest a deficit of around £300k.

(d) Land Charges

Indicators are that the downward trend which resulted in a shortfall of £190k in 2004/05 will continue in 2005/06. The budget assumed an increased income target of £26k. There is a risk of around £200k.

(e) One Stop Shop

As a result of the outcome of job re-evaluations which affects a number of members of staff there are additional salary costs of £115k.

(f) Hospital Beds

Brent Primary Care Trust (PCT) are moving to "virtual" hospital wards where patients who would have been previously admitted to hospital are cared for at home with high levels of health input. The PCT plan to begin introducing these arrangements in May 2005 and to reduce the number of hospital beds (by 35) in September 2005. This leads to a

transfer of costs to the Council. It is estimated that there will be full-year costs of £720,000 with around half of that falling in 2005/2006.

- 3.4.3 It is expected that each Service Area will manage their budgets to ensure that no overall overspending occurs. The above assessment was made at the end of May so it remains early in the financial year. A detailed analysis of the position will be presented in the next monitoring report to the Executive.

3.5 OVERALL POSITION OF BALANCES

- 3.5.1 Taking account of the provisional outturn the table below sets out the latest position.

	£'000
Balances available (per Appendix A) at 31 st March 2005	10,346
Less Potential Audit Adjustments	(2,000)
Estimated Total Balances Carried Forward to 2005/2006	8,346
Less requests for additional resources	(422)
Less agreed contribution from balances in 2005/2006 budget	(65)
Less spend to save funding	(250)
Provisional Level of Balances 2005/2006	7,609

- 3.5.2 The agreed budget set balances of £7m less £250k for the spend to save funding, although this was assumed to be repayable in future years. There is therefore an overall current improvement of £859k included within the 2005/2006 budget.

- 3.5.3 Members are reminded of the risks highlighted in the 2005/2006 budget in section 3.4.

3.5.4 Schools Balances

The balances available to schools is as follows:

	£'000
31 st March 2004	2,456
31 st March 2005	3,333
	877

There has thus been an increase of £877k over the course of the financial year (35.7%).

4. FINANCIAL IMPLICATIONS

- 4.1 This is contained within the detail of the report.

5. LEGAL IMPLICATIONS

- 5.1 The revenue budget is agreed by Full Council as part of the annual budget process. Changes to, or departures from, the budget during the year other than by Full Council itself can only be agreed in accordance with the scheme of Transfers of Virements contained in the Constitution.
- 5.2 The Director of Finance and Corporate Resources is satisfied that the criteria in the scheme are satisfied in respect of the virements and spending proposals in the report.

6. DIVERSITY IMPLICATIONS

- 6.1 This report has been subject to screening and officers believe that there are no diversity implications.

7. STAFFING IMPLICATIONS

- 7.1 There are no direct staffing implications arising from the report but the level of budgets available may well ultimately have staffing consequences.

8. CONCLUSIONS

- 8.1 The Statement of Accounts, prior to audit, will be presented to the General Purposes Committee in July. All figures therefore remain provisional. It is however pleasing to report an improvement in the position to that previously assumed.
- 8.2 It is very early in the financial year and close monitoring will be maintained with regular reports to Members. There still remains a high level of risk within the budget. Members should also be aware of the issues raised within the report on the Capital Programme. The increase in balances provides an additional cushion against areas of concern which will emerge later in the year. It also offers an opportunity to fund a limited number of one-off items, which will ease financial pressure in future years. As and if opportunities arise which meet the requirements of the Medium Term Financial Strategy, these will be brought to the Executive.

9. BACKGROUND INFORMATION

Report 2005/2006 Budget and Council Tax and Minutes of the Council Meeting on 28th February 2005.

Report 2004/2005 Statement of Accounts – General Purposes Committee- 12th July 2005.

Treasury Management Annual Report 2004/2005 – Executive 11th July 2005.

Any person wishing to inspect these documents should contact Committee Services, Room 106, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Tel. 020 8937 1353.

DUNCAN McLEOD
Director of Finance and Corporate Resources