

## SECTION 4

### 4. THE PROBABLE OUTTURN 2005/06

#### Introduction

- 4.1 Revenue and capital budgets are monitored closely during the financial year. This includes monthly reports to the Strategic Finance Group and quarterly reports to the Executive and Performance and Finance Select Committee.
- 4.2 The latest forecast is a net underspend of £183k in the 2005/06 revenue budget. There is overspending in Housing and Community Care, with smaller overspends in Environment and Cultural Services and Children and Families, but this is more than offset by savings within central budgets.

#### The 2004/05 Final Position

- 4.3 It was reported to the Executive on 14<sup>th</sup> November 2005 that following the external audit of the 2004/05 accounts the council's General Fund balances carried forward into 2005/06 were now £10.215m.

#### The 2005/06 Budget

- 4.4 The council set a General Fund revenue budget of £367.234m for 2005/06 including a planned contribution of £315k from balances. This assumed balances of around £7m at 31<sup>st</sup> March 2006. A number of adjustments have been made during the financial year that have increased the contribution from balances to £2.493m with estimated overall balances standing at £7.722m at 31<sup>st</sup> March 2006.

#### Estimated Position 2005/06

- 4.5 The last report on the revenue budget went to the Executive on 14<sup>th</sup> November 2005 based on the position at the end of September. Each service area has subsequently prepared an updated report detailing its position to the end of December. The forecasted outturn is set out in Appendix A and summarised in Table 4.1. The net underspend is £183k.

**Table 4.1 2005/06 Forecast Outturn**

|                            | Latest Position<br>(Over)/Under Spend |            |
|----------------------------|---------------------------------------|------------|
|                            | £'000                                 | £'000      |
| <b>Service Areas</b>       |                                       |            |
| Corporate Units            | 87                                    |            |
| Children and Families      | (473)                                 |            |
| Environment and Culture    | (364)                                 |            |
| Housing and Community Care | <u>(1427)</u>                         |            |
|                            |                                       | (2,177)    |
| <b>Central Items</b>       |                                       | 2,360      |
| <b>Total Variance</b>      |                                       | <b>183</b> |

## Corporate Units

- 4.6 The Corporate Units are forecast to show a small surplus of £87k.

The main area of risk is the Housing Benefit Deficit which because of the scale of activity can fluctuate significantly.

Due to a data matching exercise with information provided by the Department of Work and Pensions and the introduction of the Verification Framework, which involves local authorities having to carry out more stringent checks on claimants entitlements, there has been an increase in the level of claimant error overpayments in the current financial year. Such overpayments only attract 40% subsidy, instead of the normal 100%, so a higher level of overpayments will lead to an increase in net expenditure. The number of these overpayments have now started to reduce as the initial work has been undertaken to review the claims. It was originally estimated that the higher level of overpayments would have resulted in an overspend of £600k. However, the recent reduction, combined with improved recovery of overpayments from claimants, should bring the outturn in on target

An additional risk is that there are thresholds for local authority error, above which subsidy is reduced. In 2005/06 if such overpayments are below 0.48% of total benefit expenditure there is no subsidy loss. If the figure is between 0.48% and 0.54%, there is a 60% subsidy penalty on all of these overpayments which would equate to a loss of subsidy of around £600k, and above 0.54% there is a 100% subsidy penalty on all overpayments. Brent was below the 0.48% threshold in 2004/05, and although this remains a risk it is not anticipated that the threshold will be breached this year. However, if it was, there would be a significant loss of subsidy.

## Children and Families

- 4.7 Children and Families is projecting an overspend of £473k. The situation has improved from the £950k reported to Members at the Executive on 14<sup>th</sup> November. This movement is primarily due to the position on looked after children. A growth in placements and uncertainty over the level of asylum seekers grant led to a rather pessimistic view being taken in November. As part of the announcements linked to the Local Government Settlement the level of asylum seekers grant was confirmed at a higher level than expected and Brent will receive a special circumstances grant of £499k for 2004/05 and £256k for 2005/06.

However, pressures still remain on children's placements with a number of recent costly placements leading to a projected overspend of £417k. In addition, an overspend of £56k is still expected for the Gordon Brown Centre. There are also additional costs associated with finding places for secondary children without a school placement.

## Environmental and Culture

4.8 The Environment and Culture budget is very complex with a large number of different services and pressures. The net forecast overspend for Environment and Culture is £364k, a reduction of £94k from the total reported to the Executive in November. This includes the following main areas of overspending:

(a) Parking Account

Indications are that the significant loss of income experienced in 2004/05, due to theft and vandalism of meters, has now largely been overcome. However, the transition to a new contractor in July led to a dip in performance at the end of the old contract with consequential costs and loss of income. Improvements are being made with the new contractor and the current forecast is a deficit of £164k.

(b) Land Charges

Indications are that the downward trend which resulted in a shortfall of £190k in 2004/05 has continued in 2005/06. A deficit of around £270k is now expected.

(c) Library Service

Potential overspendings of £200k relating to staff and property costs combined with a fall in income have emerged.

(d) Parks Service

There is a potential overspend of £60k due to increased water bills for Vale Farm linked to a serious water leak which has only recently been repaired.

Various steps are being taken across the service area to reduce the overall overspend including the suspension of £150k of highway schemes. In addition a number of service units had their budgets reduced to help meet the overspend.

## Housing and Community Care

4.9 Housing and Community Care is currently forecasting an overspend of £1.427m, with the overspend pressures centred in the area of Adult and Social Care. There has been a significant worsening of the position since that reported to the Executive on 14<sup>th</sup> November 2005.

The largest areas of overspend are:

- (a) Transfer of costs from Health - Brent tPCT's move to 'virtual hospital wards' is reflected in the overspends. Patients who would have been previously admitted to hospital are cared for at home with high levels of health input. However, additional costs also fall on the local authority amounting to £1.194m. This is made up of £606k for additional home

care with Older People Services, £138k from Learning Disabilities for the decanting of Kingsbury hospital and a further £450k for physical disabilities clients.

- (b) Within Physical Disabilities there are additional overspends of £925k resulting from £670k for increased homecare activity, £135k for increased direct payments, and a £120k reduction in the forecast income from homecare clients.
- (c) Community equipment stores – this is jointly run with the tPCT. Increases in the volume of issues are leading to a projected overspend of £300k of which the council's share is £215k.

The above has been partially offset by various other underspendings amounting to £369k. In addition a £466k contingency budget agreed at the start of the financial year has been utilised. There is also £266k of carried forward balances which can now be used in the current year.

## Central Items

4.10 There is a net £2.36m underspending. The main variations are as follows:

(a) Ward Working

It was originally planned that another 5-6 additional wards would be introduced during 2005/06 to add to the 6 wards piloted in 2004/05. The position now is that no further wards will be introduced this financial year but a full roll out will occur by October 2006. Consequently an underspending of £250k is forecast in 2005/06.

(b) Capital Charges

Overall capital charges including prudential borrowing are forecast to underspend by £2m in 2005/06. There are number of factors that account for this - principally savings from debt restructuring activity during previous years, reduced long term interest rates and slippage within the current year's capital programme that means borrowing in 2005/06 will be less than forecast.

## General Fund Balances Carried Forward

4.11 This position on balances is set out in Table 4.2 below.

**Table 4.2 Estimated Balances Carried Forward 31<sup>st</sup> March 2006**

|   | £m                  |
|---|---------------------|
| Balances brought forward 1 <sup>st</sup> April 2005 | 10.215              |
| Agreed contributions from balances during year      | (0.487)             |
| Spend to Save funding                               | (0.250)             |
| Forecast Underspending 2005/06                      | 0.183               |
| Adjustments for Amending Reports                    | (0.919)             |
| Local Authority Business Growth Incentives          | 500                 |
| Provisions for changes to Outturn                   | (1.000)             |
| Allocation to One-Off Growth Items                  | <u>(520)</u>        |
| <b>Estimated Balances C/Fwd</b>                     | <b><u>7.722</u></b> |

4.12 The following items in Table 4.2 have not been detailed in either this or earlier reports:

(a) Local Government Finance Amending Reports

The council received notification on 31<sup>st</sup> October from the Office of the Deputy Prime Minister that Amending Reports have been issued for consultation, relating to the Local Government Finance Settlements for 2004/05 and 2005/06. These Reports update the Settlement for some changes in data. The most significant of these for Brent is the amendment to the 2002 mid-year population estimate. As a result Brent will retrospectively lose £870k of grant for 2004/05 and £49k in 2005/06. This is an adjustment over which the council had little ability to predict either the impact or timing. This total loss of £919k has been reflected in the resources position above. The council has made strong representation to central government about the Office of National Statistics population estimates, which we regard as significantly understating the actual position.

(b) Local Authority Business Growth Incentives (LABGI)

The LABGI scheme was introduced in 2005/06 and allows authorities to retain a proportion of any increase in business rates revenues above a certain level. It aims to provide incentives to local authorities to promote economic growth. There is a complex formula determining the amount a local authority receives, with baseline growth in business rates set on the basis of historic growth. Authorities keep 70% of any increase above the baseline, up to a maximum level. Reductions in the level of empty properties contribute to this, as this reduces empty relief and thus increases the total rates revenue. No allowance for any receipt was assumed when the 2005/06 budget was agreed because of the then uncertainties around how the scheme would eventually operate.

The government announced 2005/06 allocations in February 2006. The amount allocated to Brent Council as part of this announcement was £270k compared to the £500k included in Table 4.2 above. The council's own calculations suggest the grant should be nearer to the £500k included in the probable outturn and officers are currently in correspondence with the Office of the Deputy Prime Minister about this. In the meantime, any shortfall against the amount included in the report will need to be offset against the £1m provision made for changes to the outturn (see (c) below).

(c) Provisions for changes to outturn

The forecasts for 2005/06 are based on December figures so there are still a number of uncertainties and risks which may bring further overspendings. These include, in particular, the continuing upward pressure on costs of adult care (paragraph 4.9), the potential loss of housing benefit subsidy (paragraph 4.6), and the uncertainty about

income from the Local Authority Business Growth Incentive scheme (paragraph 4.12 (b)). It is therefore felt prudent to provide an earmarked provision of £1m to meet adverse changes to the outturn. The position can then be reviewed when the 2005/06 accounts are closed in June 2006.

In the interim it is essential that appropriate measures continue to be taken by service areas to seek to keep within their allocated budgets for the rest of the financial year and not jeopardise the 2006/07 budget with overspendings that will need to be funded.

(d) Allocation of one-off growth items

In reviewing the growth proposals that the Administration was minded to agree, it was clear that there were a number of one-off items which did not create commitments into future years and could be brought forward to 2005/06. Details of the items, which amount to £520k, are set out in Appendix A(i). Members are asked to agree that these are funded from 2005/06 resources, and where expenditure is not fully incurred in 2005/06, an earmarked reserve be set up from the uncommitted allocation to cover 2006/07 spend.

### **Summary of the 2005/06 Probable Outturn**

- 4.14 The forecast spend, plus the decisions requested from Members, leaves £7.722m of General Fund balances estimated to be carried forward into 2006/07.