



Cabinet
13 October 2014

**Report from the
Chief Finance Officer**

For information only

Wards affected: ALL

Financial Report – August 2014

1.0 Summary

- 1.1 The report sets out the overall financial position of the Council for 2014/15 as at August 2014 and covers the following topics:
- Budget monitoring summary
 - Council Tax & NNDR collection rates
 - Debt analysis
 - Capital Programme summary
 - Financial Control

2.0 Recommendations

- 2.1 To note the attached Finance report.
- 2.2 To approve the budget virements for the capital programme as set out in section 5 of the Financial Report appendix.

3.0 Detail

- 3.1 This report is the second of a new quarterly Finance Report for 2014/15 for the Cabinet. This report covers the period to August 2014. Please see attached appended Finance Report.

4.0 Financial Implications

- 4.1 This report is entirely concerned with Finance and the detail is contained in the body of the appendix.

5.0 Legal Implications

- 5.1 There are no legal implications arising from this report.

6.0 Diversity Implications

- 6.1 There are no diversity implications arising from this report.

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 There are no staffing/accommodation implications arising from this report.

8.0 Contact Officers

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**Cabinet
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Officer**

FINANCIAL REPORT – AUGUST 2014

1.0 Purpose

- 1.1 This report highlights the overall financial position of the Council as at August 2014. The report will cover the following topics:

Budget Monitoring summary
2014/15 Savings
Council Tax & NNDR Collection Rates
Debt analysis
Capital Programme summary
Financial Control

2.0 Budget Monitoring Summary

- 2.1 As at August 2014 the council's General Fund budget is forecast to be underspent by £2.1m at the year-end, compared to the £1.0m underspend that was forecast in the last quarter. The net movement of £1.1m reflects a reduction in the forecast outturn of £0.6m in Adult Services, £0.1m in Regeneration and Growth as well as a further reduction in forecast outturn of £0.4m in Public Health. The position by department is as set out below.

Department	Gross Expenditure Budget	Gross Income Budget	Net Budget	Forecast Outturn	Forecast Variance
	£m	£m	£m	£m	£m
Children & Young People	59.1	(17.6)	41.5	42.4	0.9
Adult Services	113.1	(22.1)	91.0	90.8	(0.2)
Regeneration & Growth	86.9	(54.8)	32.1	31.2	(0.9)
Environment & Neighbourhoods	72.6	(40.3)	32.3	32.3	0.0
Central Departments	35.8	(5.1)	30.7	30.7	0.0
Public Health	18.8	0.0	18.8	16.9	(1.9)
Total	386.3	(139.9)	246.4	244.3	(2.1)

The following budgets are ring fenced and are forecast to underspend by £0.3m at the year end. A breakeven forecast was reported in last the quarter. The movement of £0.3m was due to a revised forecast within the Housing Revenue Account.

Ring-Fenced budgets	Gross Expenditure Budget	Gross Income Budget	Net Budget	Forecast Outturn	Forecast Variance
	£m	£m	£m	£m	£m
Dedicated Schools Grant	206.1	(206.1)	0.0	0.0	0.0
Housing Revenue Account	55.3	(55.2)	0.1	(0.2)	(0.3)
Total	261.4	(261.3)	0.1	(0.2)	(0.3)

The key issues underpinning these forecasts are as follows:

2.2 **Children & Young People**

The overall Children & Young People forecast is an overspend of £0.9m, which is unchanged from the last month. This is made up of £0.9m overspend in Early Help and Education and a breakeven position in Children's Social Care.

The overspend is primarily attributable to Special Educational Needs (SEN) Transport. There was a similar overspend of £0.9m in 2013/14. A number of actions are being taken to contain this pressure, including a reassessment of all transport eligible SEN pupils and a proposal to charge Post-16 SEN pupils, as this element of the service is discretionary.

As at August 2014, there were 1,670 SEN pupils in total and 702 were eligible for travel. This compares to 1,670 total SEN pupils in April 2013 where 720 were eligible for travel. Despite the overall number of eligible pupils decreasing by 2.5% since last year, the needs of the remaining pupils are more complex in nature and therefore have relatively higher costs as a result.

In previous years, the overspend against this service has been offset by compensating underspends in other areas of the overall budget. As a result, an exercise is currently underway to re-align the budget and to explore the scope of containing this overspend within the Children & Young People budget envelope.

2.3 **Adult Services**

The overall forecast is for an under spend of £0.2m which compares to an over spend of £0.4m reported in last quarter, a movement of £0.6m. This movement relates to income for Continuing Health Care that has now been quantified and incorporated into the forecast.

There is a saving target of £0.9m in 2014-15 relating to identifying clients entitled to Continuing Health Care funding from the Clinical Commissioning Group. This has been overachieved by £0.4m. The majority of this income to be received is backdated from previous financial years and therefore should be considered largely as a one-off. There

are still outstanding clients to be assessed, therefore it is expected that the forecast will be reviewed and increased through the year.

Additionally there is also an under spend across the service of £0.4m relating to current on-going recruitment into vacant posts.

Against this under spend, Mental Health Residential Care continues to forecast an over spend of £0.6m. There is continued work to ensure robust procedures are in place for Brent Mental Health Services to reduce Residential care costs by reducing clients numbers from 38 to 18 during the course of the year. This is to meet the savings target of £1.0m for 2014/15, for which residential care reductions account for £0.6m. This over spend will be reduced when the Departmental Management Team (DMT) have confidence that the early intervention and demand management measures put in place are having the desired effect on client numbers.

2.4 Regeneration & Growth

The department is reporting an underspend of £0.9m, which was £0.8m in the last quarter. The movement reflects an increase in the forecast outturn underspend. The underspend includes a saving of £0.6m achieved from Supporting People budget as a result of cost efficiencies from service retendering. There is also a net overspend of £0.2m within Temporary Accommodation due to increasing number of supported families in Bed and Breakfast. In addition, the current allocation of Local Welfare Grant is anticipated to underspend by £0.5m which is planned to be held in a reserve for future years use following the cessation of the grant from Central Government.

There is currently a shortfall in anticipated Civic Centre income which is being covered from a specific reserve. This will continue in the current year but is not a sustainable option for future years and therefore a proposed strategy is currently being finalised to fund the Civic Centre operations from 2015/16 onwards.

Temporary Accommodation (TA) is a complex budget, with the financial results being highly sensitive to the numbers of households placed, the mix of accommodation into which they are placed, the impact of the Council's strategies to reduce unit costs and the impact of the housing benefit system.

The TA position is based on a detailed supply and demand model which identifies costs, the incidence of TA numbers during the year and across the different schemes and the impact of related housing benefit subsidy. Service managers are predicting that 3,247 families will be remaining in TA by the end of March 2015, an increase of around 68 from last month's projection. This is as a result of the increased incidence of families presenting and being accepted as requiring Temporary Accommodation and the impact of increased numbers in bed and breakfast due to a shortfall in available rented properties. There continues to be significant risks attached to the Council's ability to control demand led pressures relating to TA service whilst ensuring that statutory duties are met.

2.5 Environment & Neighbourhoods

Environment & Neighbourhoods are currently forecasting a breakeven position, which is unchanged from the last quarter. Quarter 1's confirmed waste data shows an upward movement on last year's actual and an even larger upwards movement on the Public Realm contract target base year of 2012/13. This movement is repeated across all west London boroughs. Household waste increase is linked to two factors – economic recovery

and population/housing growth. There is a lesser impact affecting organic waste due to seasonal factors. It is reasonable to assume that a wetter spring explains some of the uplift in garden waste.

Due to the above, Veolia are currently significantly outside their tonnage commitment in respect of residual waste tonnages and face a potential full year recharge from the council in excess of £1m for additional costs incurred. Whilst this is provided for within the risk transfer that was negotiated as part of the new Public Realm Contract there is a risk that not all of the additional costs will be refunded. This is currently under review and negotiation with Veolia to discuss and agree options for bringing the contract target back in line.

2.6 Central Departments

Central Departments are all forecast to break even, as per the last quarter. The Public Health is reporting an underspend of £1.9m, which was £1.5m in the last quarter. The movement of £0.4m is primarily due to a revised forecast. As at August 2014, there are commitments of £16.1m against the £18.8m ring fenced grant, leaving £2.7m to be committed to projects. A view has been taken on the likely spend against new projects for the rest of 2014/15. The forecast will be revised through the year as the progress of these projects becomes clearer.

2.7 Ring Fenced Budgets

Dedicated Schools' Grant

The Department for Education has announced the DSG settlement figure for all local authorities. The provisional amount for Brent has been set at £206.1m after recoupment of academies and direct funding for High Needs places. This is however subject to change throughout the year as academy conversions materialise during 2014/15.

Of the 82 schools in Brent, 65 remain under the local authority umbrella and are referred to as maintained schools. At present, 6 of the 65 maintained schools in Brent are in a deficit position. Schools in deficit are required to apply for a licensed deficit and abide by the terms of the licensed deficit policy. Currently 5 licensed deficits have been approved with 1 still under review to ensure the plan is robust.

Housing Revenue Account

The Housing Revenue account is currently forecasting an underspend of £0.3m. This is mainly due to savings in the repairs and maintenance element of the budget due to the roll out of the new contract with Wates.

3.0 Savings

- 3.1 The table below summarises the 2014/15 savings by service area and a forecast as at August 2014. Out of £17.8m of committed savings, £17.3m (97.2%) are forecast to be delivered, which is unchanged from the previous quarter.

Service Area	2014/15 Savings	Percentage of 2013/14 budget	Forecast Savings	Forecast Variance
	£m		£m	£m
Children & Young People	3.2	7.1%	3.0	0.2
Adult Services	4.5	4.8%	4.2	0.3
Regeneration & Growth	2.7	7.6%	2.7	0.0
Environment & Neighbourhoods	3.4	9.6%	3.4	0.0
Central Departments	4.1	11.6%	4.1	0.0
Total	17.8		17.3	0.5

3.2 Children and Young People are forecasting a shortfall against their savings target. As described in paragraph 2.2 above this relates to SEN Transport, in particular savings due to efficiencies in routing (£0.1m) and savings arising from new eligibility criteria (£0.1m). Whilst new eligibility criteria has seen a 2.5% reduction in SEN pupils receiving transport, the total number of reductions has not been enough to deliver the savings committed.

3.3 Adult Services are forecasting a shortfall against their savings target. As described in paragraph 2.3 above Mental Health Services have a savings target of £1.0m, of which £0.3m has yet to be achieved in terms of a reduction in Mental Health residential care placements.

4.0 Debt & Income Collection Analysis

4.1 The Council collects income from individuals and businesses for a range of reasons. The main types of income are:

Charges for Social Care Services

Council Tax

Business Rates (National Non-Domestic Rates)

Parking Fines

Housing Rents

We also collect a wide range of fees and charges for everything from Land Registry Searches to Planning Applications and Licenses.

- 4.2 Oracle debt includes invoices raised by service areas and is collected by the Finance Service Centre. The table below shows the balances for 2014/15.

	Apr £m	May £m	June £m	July £m	August £m
Opening balance	7.3	7.4	6.2	7.7	7.3
Invoices Raised	2.1	0.8	2.3	0.9	0.3
Collected	2	2	0.8	1.3	1.4
Closing Balance	7.4	6.2	7.7	7.3	6.2

Of the outstanding debt of £6.2m, 43% relates to invoices up to 60 days past their due date. 46% relates to debt over 360 days and is being pursued by the FSC debt recovery team, although £0.9m is secured against an asset. Cash collected in 2014/15 to date exceeds invoices raised by £1.1m which indicates that old debts are being recovered.

- 4.3 The ABACUS system records debt relating to Social care fees and charges for council run services including residential care, day care, home care, adaptations, equipment etc. The table below shows the balances for 2014/15.

	Apr £m	May £m	June £m	July £m	Aug £m
Opening Balance	10.4	10.4	10.2	10.3	10.3
Invoices Raised	0.7	0	1.5	0.7	0.8
Collected	0.7	0.2	1.4	0.7	0.9
Closing Balance	10.4	10.2	10.3	10.3	10.2
Balance disaggregated to:					
Unsecured client debt	7.9	7.8	7.9	7.9	7.8
Secured (against Property) client debt	2.5	2.4	2.4	2.4	2.4

The level of unsecured Adult Services debt is a large proportion of the overall debt (76%). A cross council project has been established to address this issue in terms of financial assessments for contributions to social care costs. It also ensures that the Council takes account of the impact of the implementation of the Care Bill from April 2015.

- 4.4 In terms of Council Tax, the total amount required to be collected for 2014/15 is £83.9m (excluding the GLA share) and the collection rate target is 95.9%. Council Tax collection for 2014/15 was 48.1% at the end of August 2014 compared to 48.6% for August 2013. The difference is partly due to an extra weekend day at the end of this August, and a large payment from BHP being made in August last year, but in September this year. The gap should narrow or be bridged in September.
- 4.5 Following government legislation, the Council introduced Council Tax Support (CTS) in April 2013, whereby a large number of residents now pay a proportion of their bills, instead of receiving full Council Tax Benefit. For 2014/15 there has been a significant reduction in the total of CTS granted, largely due to falling unemployment. The total granted for 2013/14 was £28.7m, compared to £26.9m in 2014/15. Therefore, it is anticipated that the total cash collectable will be over £1.0m higher as a result (after allowing for the GLA share and anticipated collection rates). There has also been an increase in cash collectable as a result of new properties coming in to rating and a reduction in discounts. The overall effect of this (including the reduction in CTS) is to increase Brent's share of the collectable income by approximately £2m.
- 4.6 For NNDR, the total amount collectable is £110.0m (where Brent retains a 30% share as a result of legislative changes to Business Rates) and the collection rate target is 97.7%. As at August 2014, the collection rate was 46.2%. This is below the equivalent rate of 49.3% in August 2013, but this is largely to payees now being able to pay in 12 monthly instalments (as a result of government legislation) as opposed to 10 instalments in 2013/14.
- 4.7 Parking debt is analysed by measuring the total number of Penalty Charge Notices (PCNs) issued against the expected yield of the total debt raised, as shown below:

Month	Debt Raised £m	Issued PCNs	Forecast £m	Cash collected on 14/15 PCNs £m	Cash collected from previous years debt £m	Total cash collected £m
Apr-14	1.3	14,079	0.715	0.625	0.081	0.706
May-14	1.4	15,659	0.796	0.582	0.075	0.657
Jun-14	1.1	14,139	0.700	0.246	0.504	0.750
Jul-14	1.2	13,844	0.700	0.622	0.085	0.707
Aug-14	1	12,898	0.700	0.605	0.095	0.700
Total	6.00	70,619	3.611	2.680	0.840	3.520

- 4.8 Whilst there are variations in the volume of PCN issued during the current year, the level of revenue forecast remains broadly the same as 2013/14, representing around 65% of actual debt raised. The method of forecasting is based on a prevailing 18 month PCN yield multiplied by the volume of sales by month.

- 4.9 The brought forward enforcement debt relating to previous financial years is £3.4m (£1.7m from 2012/13 and £1.7m from 2013/14). A bad debt provision was created for this debt, based on an expected recovery rate. To date approx. £0.84m of this debt has been collected.
- 4.10 HRA Council Tenant debt is analysed in three categories; Current Tenants, Former Tenants and Other Non-Rental Debts.

The table below shows the balances for 2014/15.

	June £'000	August £'000
Current Tenants	1,232	1,464
Former Tenants	489	588
Other	634	571
Total	2,355	2,623

- 4.11 Overall debt has increased from £2.355m in June to £2.623m in August. This indicates a fall in income collection over the last two months. BHP is currently undertaking a review of the arrears escalation policy to ensure that this trend does not continue.
- 4.12 Approximately 22% of the total debt at the end of August relates to Former Tenants arrears where tenants have left their properties owing rent to the Council. These debts continue to be chased where former tenants can be traced.
- 4.13 The outstanding debt in comparison to 2013/14 has increased by 12%. A 100% provision was created at the end of March 2014 for the above Council Tenants arrears.

5.0 Capital

- 5.1 The following table sets out the 2014/15 Capital budget and forecast as at August 2014. Appendix 1 to this report provides a more detailed breakdown of the Capital Budgets and forecasts for 2014/15 and further includes the Medium Term Financial Plan (Financial Years 2015/16 and 2016/17). The table includes £74.1m carried forward from 2013/14 which increases the 2014/15 Budget from £138.8m to £212.9m.

Service Area	2014/15 Original Capital Budget	Re-Phasing from 2013/14	2014/15 Total Amended Budget	2014/15 Forecast Outturn	Forecast Variance
	£m	£m	£m	£m	£m
Adult Services	2.5	0.1	2.6	0.6	(2.0)
Children and Young People	0	0.6	0.6	0.3	(0.3)
Environment & Neighbourhoods	8.6	4.6	13.2	12.5	(0.7)
Finance & IT	0.4	0	0.4	0.4	0.0
Regeneration & Growth	109.83	62.6	172.4	93.6	(78.8)

Regeneration & Growth (HRA)	17.5	6.2	23.7	23.7	0.0
Total	138.8	74.1	212.9	131.1	(81.8)

- 5.2 An initial exercise has been completed to re-phase the capital budgets to provide more accurate forecasts of the incidence of capital expenditure over the financial years 2014/15 to 2016/17 (the Medium Term Financial Plan). This exercise has transferred a significant level of forecast expenditure into future years.

- 5.3 The table at 5.1 above includes the impact of the re-phasing exercise carried out in the Forecast Outturn Column.

The Cabinet is requested to approve the sum of £131.1m as shown in the 2014-15 Forecast column within table 5.1 as the Amended Budget for 2014/15 and approve the impact of the rephasing exercise on the Medium Term Financial Plan as detailed in Appendix 1.

Adult Services

- 5.4 The forecast variance relates to re-phasing of £2.0m to 2015/16 in respect of the New Accommodation for Independent Living (NAIL) One Council Project where capital expenditure has been committed in 2015/16.

Children and Young People

- 5.5 The forecast variance relates to re-phasing of £0.3m to 2015/16 in respect of grants provided to Private, Voluntary and Independent (PVI) nurseries for building works to accommodate children with disabilities.

Environment & Neighbourhoods

- 5.6 The forecast variance on includes re-phasing of £0.1m on the Delivering the Sports Strategy and £0.1m on the Parks and Sports S106 budgets to future years. Additional major amendments to the department's 2014/15 capital budget are as follows:
- Estate & Stadium Access Corridors –£1.1m underspend due to Neasden Footbridge not progressing.
 - Transport for London Funded Schemes – £0.5m additional grant received
- 5.7 In respect of the Medium Term Budget the following amendments have arisen:
- Delivering the Sports Strategy – £0.2m additional grant income forecast in 2015/16 from TfL and LMCT.
 - Transport for London Funded Schemes – Future year grant allocation forecasts reduced by £0.7m in both 2015/16 and 2016/17 to reflect current expectations.

Regeneration and Growth

- 5.8 The forecast variances are as follows:

Non-Housing

- Civic Centre - £1.0m
- South Kilburn Regeneration – (£16.3m)
- Regeneration Areas – (£0.2m)
- Ark Academy – (£0.5m)
- Crest Academy – (£3.5m)
- Expansion of Primary/Secondary School Places – (£55.3m)
- Schools Asset Management Plan – (£2.6m)
- Devolved Formula Capital – (£0.2m)
- Universal Infant Free School Meals – Capital Grant – (£0.2m)
- Carbon Reduction Measures – (£0.4m)

- Enfranchisement Schemes – (£0.4m)
- GLA Re-Fit Programme (New Scheme) - £0.9m

The variances are predominantly as a result of re-phasing. Schemes where there is a variance to the capital programme over the medium term are as follows:

- Civic Centre – £2m forecast to meet the additional costs of post occupation profiled as £1m in both 2014/15 and 2015/16.
- South Kilburn Regeneration –£5.2m additional forecast expenditure over the period from 2014/15 to 2016/17 will be met from forecast capital receipts yet to be received.
- Schools
 - £0.4m forecast to be spent beyond the medium term plan in 2017/18 on Asset Management Plan.
 - £0.6m additional expenditure on Manor School as per the August 2014 Cabinet approval.
 - £1.15m reduced expenditure on the Phase 2 Permanent School expansions per returned works tenders.
- Devolved Formula Capital – £0.2m reduction to reflect detailed allocations to individual schools.
- Universal Infant Free School Meals - £0.2m reduction to reflect the element of grant paid directly to the VA schools.
- Carbon Reduction Measures
 - £0.5m reduction to reflect the current detailed forecast balance and loan repayments due to the Salix capital reserve.
 - £0.3m virement to the GLA Re-Fit Programme scheme as per July Cabinet approval.
- GLA Re-Fit Programme – £0.9m for new scheme as per July Cabinet approval.

Housing General Fund

- £1.2m reduction on Private Sector Renewal Support Grants, of which £0.9m has been identified as a saving to the Medium Term plan.

Regeneration and Growth (HRA)

- 5.9 All schemes are forecast to be within budget. There is no forecast re-phasing of budgets to future years within the medium term plan at this time, although this is currently under review as part of the overall update to the HRA Business Plan.

6.0 Financial Control

- 6.1 Financial control is essential to the operation of any large organisation. The council operates many standard processes, such as budgetary control, risk management and internal audit to ensure that controls operate as intended, and where exceptions are identified these are reported to senior officers and Members in order that corrective action can be taken. The particular issues that should be highlighted at this stage are set out below.

- 6.2 In 2013/14 43% of all internal audit reports showed a limited assurance level for the services in question. The Audit Committee is monitoring the situation closely in 2014/15,

including scrutinising recent reports where controls were considered less than satisfactory. At this stage in 2014/15 the internal audit programme has not completed, and had not planned to complete, significant elements of its systems assurance work, although many projects are well underway. Progress against these will be monitored at the Audit Committee and reported on to Cabinet if the levels of assurance do not improve on 2013/14.

- 6.3 There are 78 projects on the current plan (excluding follow up and advisory work). Work has commenced on 39 of these. 18 projects have been completed to draft or final stage. 14 of these have an audit opinion associated with them, 11 are substantial, 3 are limited. The other projects were grant certifications which do not have an assurance rating.