

Meeting of the Cabinet – 13th September 2006

Report of the Director of Finance

Spending Projections 2006/07

Purpose of Report

1. To report details of the projected outturn for 2006/07 and in the light of the Council's overall financial position, to ask the Cabinet to reiterate the need for all Cabinet Members, Directors and budget holders to exercise stringent budgetary control for the remainder of the current financial year.

Background

2. The latest budgetary control information, produced in accordance with the Council's approved Financial Management Regime, shows the following significant year end variation from approved budgets:-

	£m	
Children's Services – Projected Overspend	1.7	DR
Due to an increase in the number of looked after children, particularly those placed Out of Borough; operational pressures in the Council's Children's Homes and additional costs of pupil support (mainly home-to-school transport for special schools) – net of use of earmarked reserves (£0.1m)		
Dudley Council Plus – Projected Overspend	0.7	DR
Budget transfers have not been sufficient to offset increased costs and efficiency savings have not been made. It has not been possible to identify any compensating savings elsewhere in the Chief Executive's Budget		
Treasury Management – Projected Underspend	0.7	CR
Better than forecast interest on investments resulting from increased cash flows and favourable interest rates		
Total Net Overspending	1.7	DR

Further details are set out at Appendix A.

3. Reference was made in the Budget report to Council in March of the possibility that some of the estimates, assumptions and professional judgements inherent in the 2006/07 budget might need to be reviewed and amended during the course of the year, including:-
- (a) that the number of looked after children placed outside the Borough could be reduced and alternative approaches to treatment and support could be developed. The number of out of borough placements has increased in 2006/07;
 - (b) that the total costs of Dudley Council Plus could be contained within existing budget levels and resources transferred from Directorates as and when service lines are transferred. This has not been possible in 2006/07.

Funding the Overspending

4. As I reported in the 2005/06 Revenue Outturn, which was considered at the June Cabinet meeting, the Council has benefited from additional income from the Local Authority Business Growth Incentive (LABGI) Scheme – an incentive scheme aimed at encouraging business growth and whereby local authorities benefit from increases in business rateable values. At the time the Budget was prepared, there was some uncertainty about the amounts likely to come to Dudley and no specific budget provision was made. In the event, the Government first announced an allocation for Dudley of £395,000, which was included in the 2005/06 Revenue Outturn and transferred to a corporate reserve. It appears that the Government was originally provided with incorrect data by the Valuation Agency and has now announced a further allocation of £436,000, giving a total of £831,000, which can be used to reduce the total net overspending as follows:-

	£m
Total Net Overspending	1.7
Less: LABGI money	0.8
Balance to be funded from General Reserves	0.9

5. The effect on General Balances, compared to the original Approved Budget for 2006/07 is as follows:-

	Original Budget £m		Latest Position £m	
Balance at 31st March 2006	2.5	CR	2.5	CR
Effect of 2005/06 Outturn	-		0.8	CR
	2.5	CR	3.3	CR
Less: Estimated Use 2006/07	2.4	DR	2.4	DR
To Fund Net Overspending 2006/07			0.9	DR
	0.1	CR	Nil	

6. Although the Original Budget for 2006/07 required the use of virtually all of the General Balances, the Medium Term Financial Strategy (MTFS) was predicated on the availability of a further £1m in General Balances for use in 2007/08. It was likely that would have come from a combination of favourable variances in the 2005/06 outturn, the LABGI money and treasury management activity.
7. The need to use all of the existing General Balances and apply the LABGI money and increased investment income means that:-
 - (a) any further net overspending in 2006/07 would have to be funded from either current earmarked reserves and/or the Working Capital Reserve and action would have to be taken to replenish the Working Capital Reserves as quickly as possible to maintain the Council's financial stability.
 - (b) unless action can be taken to replenish General Balances, there will be no General Balances available to support spending in 2007/08.
8. If the current level of spending on both Children's Services (and particularly Out of Borough placements) and Dudley Council Plus continues into 2007/08, the gap between resources (assuming council tax increases are limited to around the level of general inflation) and spending projections forecast in the MTFS increase significantly.
9. There is a continuing risk that the number of children requiring support and protection will increase further in 2006/07, which together with the other major risks identified when the Budget for 2006/07 was approved, highlights the need for stringent budgetary control, in accordance with the Council's approved Financial Management Regime. The Cabinet is recommended to reiterate the need for all Cabinet Members, Directors and budget holders to exercise stringent budgetary control for the remainder of the current financial year.

Finance

10. This report deals with projected total spending in 2006/07 and identifies a total net overspending of £0.9m (net of LABGI money) which requires the use of all of the Council's General Balances. There is a continuing risk of further overspending in the current year and increasing commitments into 2007/08.

Law

11. The Council's financial management arrangements are governed by the Local Government Finance Act 1988 and 1992, the Local Government and Housing Act 1989 and the Local Government Act 2003.

Equality Impact

12. These proposals comply with the Council's policy on Equality and Diversity.
13. The net overspending includes increasing costs of looked after children and particularly placements outside the Borough. There has been no specific consultation with children and young people and there has been no direct involvement of children and young people in developing the proposals.

Recommendation

14. It is recommended that the Cabinet:-

- (a) notes the projected net overspending set out in paragraph 2 and the action which needs to be taken to fund the overspending;
- (b) reiterates to all Cabinet Members, Directors and budget holders the need to exercise stringent budgetary control for the remainder of the current financial year in accordance with the Council's Approved Financial Management Regime;
- (c) notes the effects on the Council's Medium Term Financial Plan;
- (d) takes action to replenish General Balances when the opportunity arises.



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List of Background Papers

COMPARISON OF PROJECTED SPENDING AND APPROVED BUDGETS AS AT 31ST JULY 2006

	Approved Budget £000	Projected Spending £000	Variation £000
Chief Executives	9,833	10,498	665
Children's Services	53,583	55,438	1,855
Less: Use of Reserves	0	-115	-115
	53,583	55,323	1,740
DACHS	76,363	76,363	0
DUE	52,073	* 52,073	0
Finance	3,487	2,787	-700
Law and Property	2,276	2,276	0
Total	197,615	199,320	1,705

* includes overspending on leisure centres of £411,000 (due to increased energy costs and income targets not met), offset by savings elsewhere in DUE budgets.