

Meeting of the Cabinet – 22nd September 2010

Report of the Treasurer

Spending Projections 2010/11

Purpose of Report

1. To report details of the projected revenue outturn on the General Fund for 2010/11.
2. In the light of the Council's overall financial position, to recommend 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

3. When I reported to Cabinet in June on the outturn position for 2009/10, I highlighted a number of issues that would need to be kept under review during 2010/11. These included significant pressures on the budgets for looked after children and vulnerable adults, as well as the impact on the Council of government spending reductions in the current year.
4. In advance of its budget on 22nd June, the Government announced current year reductions to Area Based Grant (ABG) including a reduction of a little under £2 million in Dudley's allocation. These reductions were primarily in elements of the grant related to Children's Services, with reductions also in Supporting People Administration and Community Safety. ABG-funded activities have been reviewed in the Directorate of Children's Services, the Directorate of Adult, Community and Housing Services and the Chief Executive's Directorate and immediate in-year savings of around £0.8 million have been identified, leaving a net adverse financial impact of £1.2 million in the current year.
5. At the same time as announcing reductions to ABG, the Government also announced reductions to the Local Authority Business Growth Initiative (LABGI) Grant. The impact on Dudley was a reduction of £0.2 million.
6. We have benefited in year from two large one-off refunds of Value Added Tax (VAT) from Her Majesty's Revenue and Customs (HMRC). These relate to:
 - £1.8m in respect of fees for sports services (1990 to 1994) which HMRC should have treated as exempt following EU legislation.
 - £0.3m in respect of audio-visual hire fees in libraries (1973 to 1996) which HMRC should have treated as non-business given that we were operating as a local authority and not a private trader.

It is proposed that £153,000 of the refund relating to sports services be used to offset shortfalls in free swimming monies and for fire risk assessments for leisure centres. Furthermore, following investigation by mechanical engineers and leisure officers there is a need to make financial provision at an estimated cost of £830,000 for essential plant and maintenance works at all three leisure centres. In addition, the former Stuart Crystal Buildings at the Redhouse Cone will need an estimated £90,000 to bring into use. These spending proposals leave a favourable variation to budget of around £1.1 million.

7. Other forecast variations from directorates' approved budgets are set out below:

	£m	
Chief Executive's Directorate – Projected Overspend	0.3	DR
Costs incurred by the Council in managing the impact of protests by the English Defence League (EDL)		
Directorate of Finance, ICT & Procurement – Projected Surplus	1.3	CR
Surplus on Treasury Management Operations, mainly due to variations to cash flow		
Total net	1.0	CR

8. As in previous years and in common with other councils around the country, we are facing significant pressure from numbers and costs of Looked After Children (LAC). There is a direct correlation between the rise in LAC and the costs of support services and arrangements for the review of children's cases. Under the Children's Act we have a duty to facilitate contact between these children and their families and this is often following a court directive. As a consequence of increasing numbers, we are experiencing a continuing rise in the need to provide supervised contact arrangements. We are however challenging the levels of supervision recommended in order to stem the increasing costs of supervised contact which for 2010/11 are forecast to overspend by £0.650m on a budget of £0.417m.

The Directorate of Children's Services has and is taking stringent action in a number of areas to manage and mitigate these costs and has already taken significant leadership action within Children's Services in order to reduce or stop all non essential spending in order to curtail the overall overspend increasing. This is in addition to the Directorate review of those activities funded by Area Based Grant in order to contribute towards the grant reduction imposed in year by the Government (see paragraph 4).

The Directorate will continue to manage the budget situation internally. Notwithstanding this, there is a risk that the directorate's budget will be overspent by £0.6 million by the year end. Further reports will be brought to Cabinet later in the year.

9. As previously identified, there are also significant pressures on the budget of the Directorate of Adult, Community and Housing Services resulting from high numbers of elderly clients being discharged from hospital requiring social care, increasing numbers of clients with Learning and Profound Disabilities being supported and by increasing numbers and costs of clients being supported with Mental Health problems. The position is being actively managed and a range of actions being taken with the aim of mitigating these cost pressures within the Directorate's budget but this carries significant risks.

10. The budget for 2010/11 was set on the assumption that there would be no pay award for the year and that, with competitive contract management and tendering the impact of non-pay inflation could be held to 1%. To ensure a prudent approach, a contingency of £1 million was included in the budget. The position of the Local Government Employers has been and remains that a pay award is not possible in the current year. However, at this early stage in the year and with the pressures outlined in this report, it is proposed that the contingency be retained.
11. A summary of the latest budgetary control forecast, produced in accordance with the Council's approved Financial Management Regime (FMR) and taking account of all the variations and potential variations set out in this report, is attached as Appendix A.

General Fund balances

12. The latest position, compared to the original Approved Budget for 2010/11, is as follows:

	Original Budget £m		Latest Position £m	
Balance at 31 st March 2010	2.8	CR	2.8	CR
Effect of 2009/10 outturn	-		0.5	CR
	2.8	CR	3.3	CR
Add: planned contribution to balances 2010/11	3.5	CR	3.5	CR
Reductions to ABG net of savings identified in year (para 4)	-		1.2	DR
Reduction to LABGI (para 5)	-		0.2	DR
One-off VAT Claims (para 6)	-		1.1	CR
Other Variations from approved budgets (para 7)	-		1.0	CR
Potential overspend in the Directorate of Children's Services (para 8)	-		0.6	DR
Balance at 31st March 2011	6.3	CR	6.9	CR

13. The position outlined above is an improvement on the budget set in March of this year. However, given the challenges that the Council is likely to face in the current financial climate, the strategy must be to continue to (amongst other things):
- (a) review spending and spending priorities and resource forecasts on an ongoing basis;
 - (b) seek further efficiency and other savings;
 - (c) review earmarked reserves for transfer, where possible, to General Balances.

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

14. This report deals with projected total spending in 2010/11 and forecasts a net favourable variance against budget of £0.1m. There are risks to this forecast from a range of pressures including those outlined in paragraph 9.

Law

15. 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

16. These proposals comply with the Council's policy on Equality and Diversity as far as is possible within available resources.
17. With regard to Children and Young People:
 - The budget for the Directorate of Children's Services is spent wholly on maintaining and improving services for children and young people. The expenditure of other Directorates' budgets also has a significant impact on this group.
 - There has been no specific involvement of children and young people in developing the proposals in this report.

Recommendation

18. It is recommended that the Cabinet:-
 - (a) notes the forecast variations to budgets set out in paragraphs 4 to 7;
 - (b) approves amendments to budgets to reflect the variations set out in paragraphs 4 to 7;
 - (c) earmarks reserves to meet the potential overspend in the Directorate of Children's Services (paragraph 8), if required;
 - (d) 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;

- (e) notes the effects on the Council's Medium Term Financial Strategy;
- (f) takes action to replenish General Balances when the opportunity arises.



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Treasurer

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COMPARISON OF BUDGETS AND PROJECTED SPENDING 2010/11

	Budget £'000	Projected Spending £'000	Variation £'000
Chief Executive's	10,004	10,170	166
Children's Services	67,467	67,528	61
DACHS	100,655	100,207	-448
DUE	55,785	55,041	-744
Finance, ICT & Procurement ¹	-3,698	-2,853	845
Law, Property & Human Resources	1,738	1,738	-
Total	231,951	231,831	-120

¹ Including Area Based Grant and Local Authority Business Growth Initiative.