

## REPORT BY HEAD OF FINANCE

|                         |   |                     |                                  |
|-------------------------|---|---------------------|----------------------------------|
| <b>TO:</b>              | <b>AUDIT &amp; GOVERNANCE COMMITTEE</b> |                     |                                  |
| <b>DATE:</b>            | <b>28 JANUARY 2016</b>                  | <b>AGENDA ITEM:</b> | <b>7</b>                         |
| <b>TITLE:</b>           | <b>BUDGET MONITORING 2015/16</b>        |                     |                                  |
| <b>LEAD COUNCILLOR:</b> | <b>COUNCILLORS</b>                      | <b>PORTFOLIO:</b>   | <b>FINANCE</b>                   |
| <b>SERVICE:</b>         | <b>LOVELOCK/ PAGE</b>                   | <b>WARDS:</b>       | <b>BOROUGHWIDE</b>               |
|                         | <b>FINANCIAL</b>                        |                     |                                  |
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| <b>JOB TITLE:</b>       | <b>HEAD OF FINANCE</b>                  | <b>E-MAIL:</b>      | <b>Alan.Cross@reading.gov.uk</b> |

### 1. EXECUTIVE SUMMARY

1.1 This report set out the budget monitoring position for the Council to the end of November 2015.

### 2. RECOMMENDED ACTION

2.1 The Committee is asked to note the budget monitoring position for 2015/16 as at the end of November, and that we are currently forecast to be at the minimum General Fund Balance level.

### 3. BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are summarised below:

|   | <b>Emerging<br/>Variances<br/>£000</b> | <b>Remedial<br/>Action<br/>£000</b> | <b>Net<br/>Variation<br/>£000</b> |
|---|--|-------------------------------------|-----------------------------------|
| Environment & Neighbourhood Services        | 1,194                                  | (1,961)                             | (767)                             |
| Childrens, Education & Early Help Services/ | 3,768                                  | (2,810)                             | 958                               |
| Adults Care and Health Services             | 2,185                                  | (1,875)                             | 310                               |
| Corporate Support Services                  | 1,160                                  | (490)                               | 670                               |
| <b>Directorate Sub total</b>                | <b>8,307</b>                           | <b>(7,136)</b>                      | <b>1,171</b>                      |
| Treasury                                    | (693)                                  |                                     | (693)                             |
| <b>Total</b>                                | <b>7,614</b>                           | <b>(7,136)</b>                      | <b>478</b>                        |

### **3.2 Environment & Neighbourhood Services**

Despite increasing this year's budget for Bed and Breakfast costs, it has not been possible to contain the growth in the number of emergency homeless placements and the cost of rooms has also risen more than expected. A range of mitigations have been or are being implemented to increase the supply of decent and affordable temporary and permanent accommodation and strengthening prevention activity. The current forecast is that with the range of mitigating measures in place the overspend can be contained to around £600k at year end. This is being closely monitored as numbers fluctuate. There is also an unavoidable overspend forecast in Planning, Development and Regulatory services. These overspends will be more than offset by a series of one-off in-year savings including the waste disposal contract, culture and leisure and lower than budgeted spend on concessionary fares. There is predicted to be a significant increase in income from parking services by year end. Overall it is anticipated the Directorate will have a surplus of £767k at year end.

### **3.3 Children, Education & Early Help Services**

There are overall pressures within Children's Services have increased sharply in the last few months to £3.5m, flowing from more and higher cost placements, high turnover of social work staff leading to an increase in agency & interim staffing, in addition to existing pressures on allowances and bed and breakfast costs. In addition the Authority is making a significant financial investment in service improvement. Within Education services there is a pressure of £0.3m arising from an unachieved saving within business support, which was beyond the control of the Education service as it flowed from a change more broadly within the Directorate, and home to school transport demand pressures.

Measures are being taken to reduce these pressures in year, including a resources panel and measures to improve recruitment & retention of social workers. At present we have assumed full use of the strategic reserve of £1.9m and in addition we have factored in number of funding sources, service savings and underspends in order to reduce the overall pressure to £958k. There is a risk that the pressure may increase further before the financial year end.

Within the Dedicated Schools Grant there is a budget gap of £2m on the high needs block in 2015/16, with a significant increase due to placement changes in the new academic year. The Authority and the Schools Forum are taking steps to address the current deficit and this issue going forward.

### **3.4 Adult Care & Health Services**

After making full use of the available Strategic Demand Reserve, the Directorate is currently reporting a projected overspend of £310,000 which is a decrease of £132,000 compared to the previous month. This is mainly the result some additional offsetting Health funding (£60k). Whilst there

have been some small reductions in a couple of areas there have been increases in pressure in both Physical Support and Mental Health services.

### **3.5 Corporate Support Services**

There is a range of budget variances within Corporate Support. In particular from recent monitoring, it has become apparent that there is forecast to be an adverse variance (flowing from increased children's social care caseloads) in child care lawyers, currently forecast at £450k. We also anticipate that there will be a shortfall between housing benefit expenditure and grant (both of which are figures over £80m) of at least £550k. Other adverse variances total £160k, but we also anticipate across a range of services some under spending and a preliminary view would be that will be around £490k to produce an overall net overspend of £670k. Work continues to drive out further savings.

## **4. TREASURY MANAGEMENT**

4.1 We are planning to revise our approach to the minimum revenue provision in line with developing treasury management practice in a number of local authorities, and the full details will be brought forward as part of the budget proposal and treasury strategy for 2016/17 (a draft of which will be presented to Audit & Governance Committee as usual on 21 January). No significant change arose from the underlying activity in 2015/16 during November, so the underlying in year under spend is forecast to be at least £693k, subject to the proposal on the minimum revenue provision being approved.

## **5. FORECAST GENERAL FUND BALANCE**

5.1 The General Fund Balance at the end of 2014/15 was £5.62m. As indicated in the table above, assuming remedial action highlighted is carried out, there is now expected to be a net overspend on service revenue budgets of £1.171m.

5.2 The pressure on service directorate budgets is offset by a favourable treasury position (see para 4.1), so there is an overall £478k over spend forecast. This would increase the planned use of balances of £142k to £620k, so we would end the financial year at the £5m minimum level.

## **6. CAPITAL PROGRAMME 2015/16**

6.1 The current forecast level of capital expenditure for the year is £86.4m, of which £70.1m relates to General Fund services and £12.4m to the HRA.

- 6.2 The table shows the expenditure by priority area and its current estimated funding.

| <b>CAPITAL PROGRAMME</b>   | <b>£m</b>          |
|--|--------------------|
| Safeguarding & Protecting those that are most vulnerable               | 2.5                |
| Providing the best life through education, early help & healthy living | 39.3               |
| Providing homes for those most in need                                 | 11.3               |
| Keeping the town clean, green and active                               | 7.6                |
| Proving infrastructure to support the economy                          | 15.7               |
| Remaining financially sustainable to deliver these service priorities  | 6.1                |
| <b>Total</b>   | <b><u>82.5</u></b> |

| <b>FORECAST FUNDING</b>                            | <b>£m</b>          |
|--|--------------------|
| Grants   | 27.8               |
| Receipts (inc. S106 and HRA Major Repairs Reserve) | 15.8               |
| Borrowing  | 38.9               |
| <b>Total Funding</b>                               | <b><u>82.5</u></b> |

- 6.3 General Fund capital expenditure to 30 November totalled £41m. For HRA capital, a £500k underspend is anticipated, together with £1.2m of the Hexham Road work carrying forward into 2016/17 in comparison with the agreed budget last February.

## 7. HRA

### 7.1 Supervision and Management

There is a projected underspend of £185k made up of £85k from employee budgets arising from vacancies and a projected under spend on training budgets and £100k from various running costs.

### 7.2 Capital funded from HRA

Works on Block 2 at Hexham Road as part of the refurbishment programme will commence in October. The scheduled completion date for Block 2 is April 2016. The capital funds for the works to Block 3 (£1.2m) will be carried forward to 2016/17 as indicated above.

### 7.3 Repairs (Revenue)

Projected overspend of £185k made up of £85k responsive repairs and £100k void work due to bringing Dee Park properties back into use for a temporary period.

### 7.4 Rent Income

A preliminary review of rent income suggests that it will be broadly in line with the budgeted amount (over £30m), taking account of the rent debit and collection to date in the year.

7.5 **Capital Financing**

Less HRA capital was financed by borrowing than forecast in 2014/15 and that taken with the HRA impact of the Council’s cash flow position are such that we forecast an underspend of at least £400k in this budget (£10.6m)

7.6 Overall we therefore anticipate a £500k underspend, together with £1.2m of the Hexham Road work carrying forward into 2016/17 in comparison with the agreed budget last January.

8. **RISK ASSESSMENT**

8.1 There are risks associated with delivering the Council’s budget and this was subject to an overall budget risk assessment. At the current time those risks are being reviewed as part of budget monitoring and can be classed as follows:

- High use of agency staffing & consultants;
- Pressures on pay costs in some areas to recruit staff or maintain services;
- In year reductions in grant flowing from the new government (notably Public Health Grant where a near £600k grant cut has now been made);
- Demand for adult social care which is forecast to effectively deplete its share of the strategic demand reserve;
- Demand for children’s social care which depletes its share of the strategic demand reserve;
- Increased requirement for childcare solicitors linked to activity on the above;
- Homelessness, and the likely need for additional bed & breakfast accommodation (this also affects other Directorates notably DCEEHS);
- Demand for special education needs services
- Not complying fully with grant conditions for capital projects by spending the required money during the current financial year
- Housing Benefit Subsidy does not fully meet the cost of benefit paid

9. **BUDGET SAVINGS RAG STATUS**

9.1 The RAG status of savings and income generation proposals included in the 2015/16 budget are subject to a monthly review. The RAG status in terms of progress is summarised below:

|       | £000         | %          | Comparator to August (last PC report) % |
|-------|--------------|------------|---|
| Red   | 430          | 5          | 3                                       |
| Amber | 2,049        | 24         | 31                                      |
| Green | 5,976        | 71         | 66                                      |
| Total | <u>8,455</u> | <u>100</u> | <u>100</u>                              |

9.2 The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to those shown above.

## 10. COUNCIL TAX & BUSINESS RATE INCOME

10.1 We have set targets for tax collection, and the end of November 2015 position is:

| Council Tax | 2015/16<br>£000 | Previous Year's<br>Arrears<br>£000 | Total<br>£000 |
|-------------|-----------------|------------------------------------|---------------|
| Target      | 60,258          | 1,350                              | 61,608        |
| Actual      | 59,989          | 960                                | 60,949        |
| Variance    | 269 below       | 390 below                          | 659 below     |

10.2 For 2015/16 as a whole the minimum target for Council Tax is 96.5%, (2014/15 collection rate 96.7%). At the end of November 2015, collection for the year was 73.76% compared to a target of 74.8%, and collection is slightly behind 2014/15 (74.09% by end of November 2014).

### 10.3 Business Rates Income to the end of November 2015

| Business Rates | 2015/16<br>£000 | 2015/16<br>% |
|----------------|-----------------|--------------|
| Target         | 80,203          | 72           |
| Actual         | 78,210          | 70.2         |
| Variance       | 1,933 below     | 1.8% below   |

The target for 2015/16 as a whole is 98.50%. The pattern of business rates payments has been changing following regulatory changes, and the target profile has been adjusted to reflect the new arrangements. At the end of November 2014, 71% of rates had been collected, but there are some limitations to that as a comparative figure.

## 11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 30 November 2015 stands at £4,425k in comparison to the 31<sup>st</sup> March figure of £3,176k. This shows an increase of £1,249k, but this includes large amounts due from other public sector bodies and we note that £2,947k of the balance as at 30 November 2015 is greater than 151 days old.

## 12. CONTRIBUTION TO STRATEGIC AIMS

12.1 The delivery of the Council's actual within budget overall is essential to ensure the Council meets its strategic aims.

## 13. COMMUNITY ENGAGEMENT AND INFORMATION

13.1 None arising directly from this report.

#### **14. LEGAL IMPLICATIONS**

- 14.1 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves.
- 14.2 With regard to Budget Monitoring, the Act requires that the Authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring. Currently Budget Monitoring reports are submitted to Policy Committee regularly throughout the year and therefore we comply with this requirement.

#### **15. FINANCIAL IMPLICATIONS**

- 15.1 The main financial implications are included in the report.

#### **16. EQUALITY IMPACT ASSESSMENT**

- 16.1 None arising directly from the report. An Equality Impact Assessments was undertaken and published for the 2015/16 budget as a whole.

#### **17. BACKGROUND PAPERS**

- 17.1 Budget Working & monitoring papers, save confidential/protected items.