READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**28 SEPTEMBER 2017**	**AGENDA ITEM:**	**8**
TITLE:	**BUDGET MONITORING 2017/18**		
LEAD COUNCILLOR:	**COUNCILLORS LOVELOCK/ PAGE**	**PORTFOLIO:**	**FINANCE**
SERVICE:	**FINANCE**	**WARDS:**	**BOROUGHWIDE**
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1. EXECUTIVE SUMMARY

1.1 This report sets out the projected Council revenue budget outturn position for 2017/18 based on actual, committed and projected expenditure for the Council as at the end of July 2017. It also contains limited information on the capital programme and the Housing Revenue Account (HRA).

1.2 It is projected that, due to a variety of reasons, the revenue budget will be overspent by £1.8m as at the year end and that this amount can then be contained within the contingency of £2.3m set aside to manage unexpected pressures and savings shortfalls. However, there are serious concerns to be noted within this overall headline:

1.2.1 That the total of negative variances is £6.8m, which does contain some projection of further pressures on care places through to the year end;

1.2.2 That some of the positive variances and mitigations are not ongoing, so will not provide relief for any of the negative variances that are ongoing into 2018/19 and beyond. These issues will need to be dealt with in the budget setting process for 2018/19;

1.2.3 That the contingency is already significantly committed at this early stage of the year and when it is known that the General Balance is at the minimum

1.3 It is noted that each service area is seeking further proposals for reducing the pressure on the 2017/18 budget through a range of interventions. It is particularly important that these proposals are deliverable and sustainable beyond 2017/18.

2. RECOMMENDED ACTION

2.1 To note that based on the position at the end of July 2017 revenue budget monitoring forecasts an overspend of around £1.781m as at the year end.

3 BUDGET MONITORING

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

	Negative Variances £'000s	Positive Variances £'000s	Remedial Action £'000s	Net Variation £'000s	% variance budget
Environment & Neighbourhood Services	1,802	-2,012	-60	-270	-0.9%
Childrens, Education & Early Help Services/	1,600	-100	0	1,500	3.80%
Adults Care and Health Services inc. Public Health	1,917	-450	-717	750	2.10%
Corporate Support Services	1,428	-1,323	-104	1	0.00%
Directorate Sub total	**6,747**	**-3,885**	**-881**	**1,981**	
Treasury		-200		-200	
Total	**6,747**	**-4,085**	**-881**	**1,781**	

3.2 Environment & Neighbourhood Services

Based on the information currently available, the directorate is predicting a year-end net positive variance against budget of £270k. However, this is the consequence of a much more significant range of variances across a number of budgets, increased costs of £0.4m, reduced income of £0.22m and as yet unrealised savings of £1.1m.

Of the total gross projected negative variance of £1.8m, £1.3m occurs in Transportation and Streetcare (T&S). A significant proportion of this results from as yet unachieved savings/income generation, including removal of a further waste collection round (£284k) and additional income from off street car parking (£175k). T&S also has increased costs, such as a one-off purchase of car parking equipment (£130k, although this may yet prove to be capital expenditure), and in some areas reduced enforcement income (£175k) in comparison to current budget expectations. Planning, Development & Regulatory Services are predicting an adverse variance of £0.20m. Economic & Cultural Development (ECD) are also predicting an adverse variance (£0.3m), predominantly relating to delays in plans to generate additional income from advertising due to a legal challenge and schools business development income.

However, this negative variance is more than compensated for by £2.1m of positive variances. Of this, £1.04m is increased income, most of which arises in T&SC, and includes £0.4m additional on street car parking income and £0.36m of additional income from green waste.

£1m of the positive variance arises from reduced costs in T&SC, ECD & Housing & Neighbourhood Services (H&NS). Notably for T&SC, £0.4m across the park & ride contract & concessionary fares, with much of the remainder (£0.3m) being salary costs where in some cases vacancies have been held back to mitigate pressures above. Within H&NS bed and breakfast use has reduced from 144 rooms in March to 111 rooms currently in use, reflecting needs presenting and a concerted effort to prevent homelessness; increase supply and access to affordable housing; intensive casework with individual households; and effective market management/cost control. With better than anticipated first quarter performance alongside the Lowfield Road temporary accommodation development due to come online in the Autumn, the service is aiming to finish the 2017-18 financial year with no more than a total of 100 occupied rooms. This would lead to an underspend of approximately £0.36m. Demand can fluctuate through the year and some loss of provision is currently anticipated which may create a short term pressure.

3.3 Children, Education & Early Help Services

Following the placement of an additional 10 Looked After Children (LAC) in external residential placements, an overspend of £1.5m is projected for the year, which represents 3.8% of the annual budget. The forecast assumes 8 additional residential placements will occur in year at an estimated cost of £555k assuming these placements are based on 1 per month (average cost of £3,677 per week) and is included in the overall forecast of £1.6m until the end of March. Details are in the following paragraphs.

The negative variance has arisen due to the impact of children being included in Operation Epping, with their assessed need indicating a requirement to be placed in residential provision. There are currently 11 children identified as at risk of Child Sexual Exploitation (CSE), missing and at risk from drug dealers and known criminals, at a cost of £1.69m until the end of year. At present there are currently 76 children known as at CSE risk, and 5 additional placements have been included in the projection to the end of year. In addition there have been 4 additional residential placements at a cost of £745k for the year, previously external residential placements were static (circa 14 to 15), but in the last 6 months there has been a spike in high level risk and identified needs are best met through residential provision.

The current overspend is reduced by £100k following the early implementation of the Business Admin restructure required by 1st April 2018 to achieve the proposed savings for 2018/19. However, temporary interim arrangements are required in 2017/18 where additional admin is required to support the improvement within Children's Services. Therefore, the overspend is mitigated by £153k but in year required to spend one off £53k on additional temporary support.

Further work is to be undertaken by the Directorate to mitigate the overspend within year. In addition, the restructure of Children's Centres is to be implemented during 2017/18 to enable the Directorate to implement the 2018/19 savings earlier than 1st April 2018. The impact of this is not yet known as the Directorate is still in the consultation stages.

During the year, investment in the Access to Resources Team (ART) to improve the Commissioning of Services will also assist in reducing this overspend. In addition the current in house foster carer recruitment will assist in the reduction of placement costs if there are disruptions to current external placements and in the longer term. All top 10 external residential placements are to be reviewed over the next 6 weeks with the aim of auditing the cases to ensure the residential placement is the correct placement according to care plans, and Finance will be involved in this exercise. New tighter regimes will be introduced when making future placements, particularly emergency placements through improved commissioning arrangements within the ART. The current Solutions Panel will become more challenging and support the audit work aiming to reduce costs further within the existing placements.

The paragraphs above describe the impact for the General Fund Services, however the Directorate is also currently anticipating an in year deficit of £2m relating to the Dedicated Schools Grant (DSG). This will increase the deficit of the DSG to £3.4m which will be carried forward into 2018/19. The implementation of a new SEN strategy is intended to mitigate this risk in order to bring the budget back under control before new funding arrangements are introduced.

3.4 Adult Care & Health Services

Largely due to pressures on placements in Mental Health and in Learning Disability, an overspend of £1.917m is projected for this Directorate The largest pressures are: Mental Health £0.7m and Learning Disability Services £0.9m, and occur across all service types, although particularly in residential and community services.

The negative variance on Mental Health Services breaks down as £157K on placements in nursing homes due to an additional 5 clients being placed over the budgeted number of clients, £392K on residential placements based on an additional 11 clients over budget and an overspend of £188K on Community Services.

For the Learning Disabilities Service, the overspend is due to an additional £280K on residential placements because the average cost of placements are £48 per week per client higher than budgeted although client numbers are as budgeted. There is also a £638K overspend on Community Services which is related to the clients and demography but is difficult to assign to exact client numbers.

So far the Directorate has identified £1.167m of positive variances and remedial action to reduce the gross overspend. The main remedial action identified to reduce the deficit has included reworking the use of parts of the Public Health grant (£0.365m), keeping inflation awards to a minimum with providers (£0.250m) and around trying to find savings from either reworking service delivery or holding vacancies (£0.351m). Better contract management should yield additional Continuing Health Care (CHC) funding, although most of this is expected to be historical and will be one-off. The Directorate has also managed to push a £0.121m pressure on extra care into 18/19, and proposes capitalising costs of implementing new computer systems and software (around £0.06m, although this has not yet been approved).

Overall, the remedial actions identified so far indicate around £0.450m of positive variances and £0.717m as one-off and non-recurrent remedial actions, so further work is still needed to reduce the overspend on an ongoing basis. £0.450m of this may be capable of being on-going into 2018/19. The positive variances and remedial actions result in a net overspend prediction of £0.750m for the whole Directorate.

Further remedial actions are still being sought but it is not currently expected that these will reduce the overall forecast position back to budget by the year end.

It should also be noted that £0.8m of savings remain amber/red and are at risk of not being delivered, but are assumed to be delivered in this monitoring report. This includes projects around the ASC restructure, right-sizing and review of packages and charging policy. Further work is ongoing to confirm the expected savings from these plans and to cover any shortfall by increasing savings within the other transformation projects.

3.5 Corporate Support Services

The directorate is currently reporting a £1k overspend against a £13.1m budget; however there are large variances underlying this position which are detailed below.

The most significant variance sits within the Childcare Lawyers service; this is a Berkshire wide joint arrangement operated by Reading Borough Council. Increased caseloads and duration of cases due to their complexity means the team is employing interims and agency staff over and above establishment at an additional cost of £976K. These costs are recharged to the other five Berkshire LA's, including administration fees, causing a positive variance on income which offsets the negative variance on costs. The RBC element of the Joint Arrangement is currently expected to be in line with the budget.

The digitisation saving that is currently held within the Corporate budget is being shown as a pressure (£153K) whilst more detailed work is ongoing to identify how this saving will be achieved. In order to deliver this saving CMT have recently agreed to give targets to each of the directorates to work towards digitisation. There is also a pressure on the £40K income target for the Corporate Investigations Team and an exception report has been written for CPDG to ask that it is moved into 2018/19 when resource will be available to deliver it.

The Finance & Accountancy Team are currently undergoing a period of transformation with a new structure expected to be in place by the start of 2018/19. As part of the future for Finance, it is essential that the underlying processes and practices for preparing the 2017/18 accounts are improved to ensure that the accounts closure for 2017/18 can be achieved on time. For this reason a Chief Accountant will be recruited early in the new year to provide technical accounting leadership and capacity in the team. During this period of transformation for Finance & Accountancy, interim staff have been brought in to cover vacant posts and provide stability to the team at an additional cost of £40K. It is also anticipated that there will be additional external audit fees of around £80K arising from the additional work that EY have carried out on the audit of 2016/17 accounts. As the improvements in Finance are driven through, there could be additional demands on staffing and system costs for which applications will be made to the change fund.

The overspends in the directorate are mitigated by vacancies being held in the Policy Team and in the Learning and Workforce Development Team (£104K). There is also a non-recurrent saving (£180K) on the elections budget for 2017/18 as it is a fallow year.

4. TREASURY MANAGEMENT

4.1 Following the review of budgets in July, the net capital financing budget was reduced to £10m. Currently an underspend of £200k is forecast (though there remain some uncertain factors impacting the budget, some of which may prove volatile during the remainder of the financial year).

5. FORECAST GENERAL FUND BALANCE

5.1 Based upon the draft accounts for 2016/17, the General Fund Balance at the end of 2016/17 was £5.2m. As indicated in the table above, assuming the remedial action highlighted is carried out, there is a forecast overspend on service revenue budgets of £2.0m, which is likely to be offset by a slightly favourable treasury position (see para 4.1), leaving an overall £1.8m over spend forecast. This is within the level of contingency in the budget for unrealised savings and unexpected pressures. Therefore, based on the budget funding plan the General Fund Balance will remain above the minimum requirement. Nevertheless officers should continue to develop remedial plans to address the projected overspend. Should these plans go beyond management actions and require councillor approval they will need to be presented to the next Policy Committee meeting in September at the same time as this monitoring report is received.

6. CAPITAL PROGRAMME 2017/18

6.1 To the end of July £5.092m of the c.£121m programme had been spent. Capital spending is normally weighted to the latter part of the year and a full detailed review of the position has yet to be completed.

7. CAPITAL RECEIPTS

7.1 The financial strategy depends on successfully obtaining capital receipts. At least £6.3m of capital receipts are required to deliver the 2017/18 budget including funding for the change programme. In addition to the £1.3m delivered, good progress has been made on a further £9.4m of receipts.

7.2

	2017/18	2018/19
Planned	£12.3m	£2.5m
Of which delivered	£1.3m	£0.0m

8. HRA

8.1 Operational budgets (for repairs and management costs) at this stage in the year appear to be broadly on track and although some minor variances have been identified these will be managed within the overall operational budget.

8.2 An initial review of the likely HRA capital financing position for 2017/18 has identified those costs should be around £400k under spent, and an initial consideration of the prospect for rent income, suggests that actual income should be at least £300k better than budget, amongst other reasons because of continuing good control of rent arrears.

9. RISK ASSESSMENT

9.1 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;
- Demand for adult social care;
- Demand for children's social care;
- Increased requirement for childcare solicitors linked to activity on the above;
- Homelessness, and the risk of a need for additional bed & breakfast accommodation;
- Demand for special education needs services;
- Housing Benefit Subsidy does not fully meet the cost of benefit paid

10. BUDGET SAVINGS RAG STATUS

10.1 The RAG status of savings and income[1] generation proposals included in the 2017/18 budget are subject to a monthly review. The expanded RAG status in terms of progress is summarised below:

	£000	%
Blue (fully delivered)	6,080	40.0
Green (on track)	3,243	21.3
Amber (<10% off track)	3,066	20.2
Red (>10% off track)	2,804	18.5
Grey (undeliverable)	0	0.0
Total	**15,913**	**100.0**

10.2 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.

11. COUNCIL TAX & BUSINESS RATE INCOME

11.1 We have set targets for tax collection, and the end of July 2017 position is:

Council Tax	**2017/18 £000**	**Previous Year's Arrears £000**	**Total £000**
Target	35,683	940	36,623
Actual	35,333	966	36,299
Variance	**(350) below**	**26 above**	**(324) below**

11.2 For 2017/18 as a whole the minimum target for Council Tax is 96.5%, (2016/17 collection rate 96.8%). At the end of July 2017, collection for the year was 37.81% compared to a target of 38.18%, and collection is slightly behind 2016/17 (38.13% by end of July 2016).

[1] Financial RAG

= 100% of savings delivered, and verified by Finance (Directorate/Programme Accountant)

= On track to deliver 100% of savings target

= Up to 10% at risk, however corrective action in place to deliver 100%

= Above 10% of savings at risk, or plans not yet developed and approved, or resource issues

= Removal of Savings

11.3 **Business Rates Income to the end of July 2017**

Business Rates	2017/18 £000	2017/18 %
Target	46,810	36.10%
Actual	46,789	35.75%
Variance	**(21) below**	0.35%

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of July 2016, 34.93% of rates had been collected.

12. OUTSTANDING GENERAL DEBTS

12.1 The Council's outstanding debt total as at 31 July 2017 stands at £6.280m in comparison to the 31st March figure of £4.280m. This shows an increase of £2.000m, and we note that £3.810m of the balance as at 31 July 2017 is greater than 151 days old.

13. CONTRIBUTION TO STRATEGIC AIMS

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

14. COMMUNITY ENGAGEMENT AND INFORMATION

14.1 None arising directly from this report.

15. LEGAL IMPLICATIONS

15.1 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.

15.2 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.

16. FINANCIAL IMPLICATIONS

16.1 The main financial implications are included in the report. The Council's constitution envisages remedial action is implemented when there are adverse budget variances.

17. EQUALITY IMPACT ASSESSMENT

17.1 None arising directly from the report. An Equality Impact Assessment was undertaken for the 2017/18 budget as a whole.

18. BACKGROUND PAPERS

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