READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**25 JANUARY 2018**	**AGENDA ITEM:**	**10**
TITLE:	**BUDGET MONITORING 2017/18**		
LEAD COUNCILLOR:	**COUNCILLORS LOVELOCK/ PAGE**	**PORTFOLIO:**	**FINANCE**
SERVICE:	**FINANCIAL**	**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 November 2017. It also contains information on the capital programme, capital receipts and the Housing Revenue Account (HRA).

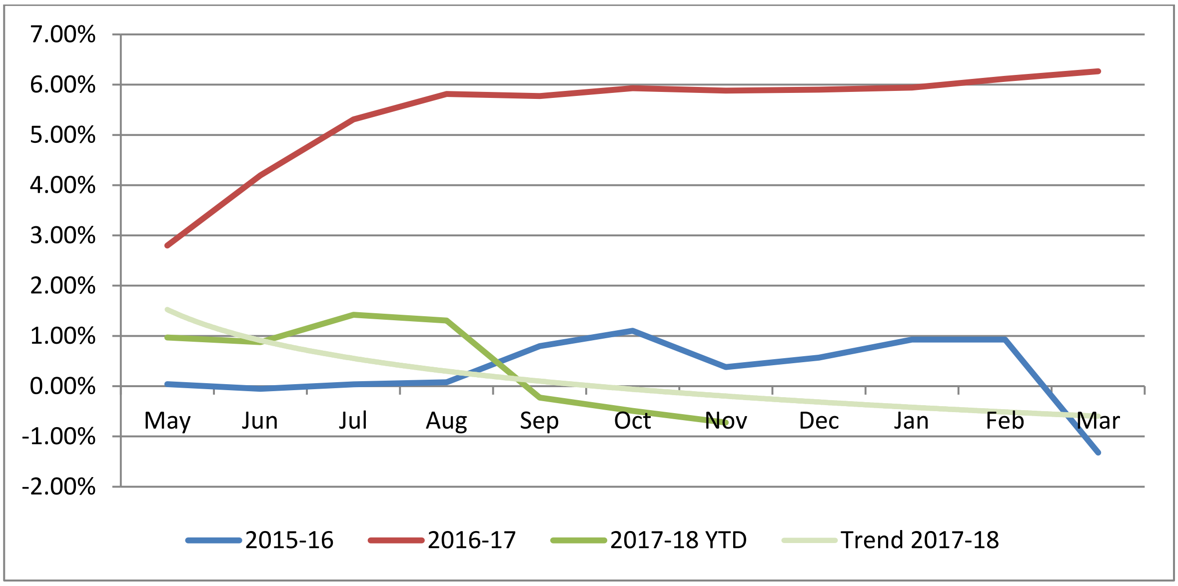
1.2 It is projected that the revenue budget will be underspent by £0.9m as at the year end and together with unused an contingency of £1.6m should there be no further unexpected pressures and savings shortfalls. However, there remain some serious concerns. In particular,

1.2.1 the total of negative variances is £9.1m, which includes some projection of further pressures on care places through to the year-end;

1.2.2 many 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. This produces a pressure in 2018/19 of £7.592m at this stage, some of which is a projection of growth in children’s social care demand into that year. This pressure is being built into the budget setting process for 2018/19;

1.3 These circumstances combined led to service directors identifying immediate steps to reduce spending in 2017/18 and these actions are in place. Further strong management is required in order to prevent further overspending during the remainder of 2017/18.

1.4 In considering this matter, it is helpful to consider the trends of previous years. The following graph shows the percentage variance to budget for the whole Council for the last two financial years and for the year-to-date with a trend line to the end of the year.



1.5 2015/16 saw a fairly flat line through the year and then an eventual underspend, whereas in 2016/17 there was a rapidly escalating and significant overspend that remained to the year end. The projection for 2017/18 is of a much lesser quantum, but the trend, particularly in children's social care, is very concerning.

2. RECOMMENDED ACTION

2.1. To note that based on the position at the end of November 2017, budget monitoring forecasts that the budget will be underspent by £0.9m, without using the remaining contingency of £1.6m.

3 BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are summarised below. The projected impact into 2018/19 is also illustrated (note: children's services have also projected an ongoing increase in demand into 2018/19)

	Negative Variances £'000s	Positive Variances £'000s	Remedial Action £'000s	Net Variation £'000s	% variance budget	Savings Delivered 2017/18[2]	18/19 impact £000
Environment & Neighbourhood Services	1,641	-2,949	-100	-1,408	-4.9%	-5,903	1,047
Childrens, Education & Early Help Services/	3,179	-313	-379	2,487	6.3%	-1,868	4,850
Adults Care and Health Services inc. Public Health	2,587	-544	-1,644	399	1.1%	-3,267	1,732
Corporate Support Services	1,732	-1,475	-443	-186	-1.4%	-2,311	-37
Directorate Sub total	**9,139**	**-5,821**	**-2,566**	**1,292**		-13,349	**7,592**
Treasury		-1,250		-1,250			
Corporate Budgets		-950		-950			
Total	**9,139**	**-7,481**	**-2,566**	**-908**			

*1 The £1,047k 18/19 impact for DENS includes £284k for a 17/18 saving now re-profiled to 19/20
[2] Total of savings classified as blue, green and amber which are delivered on track to be delivered. The whole savings programme for 2017/18 is currently £14,419K.

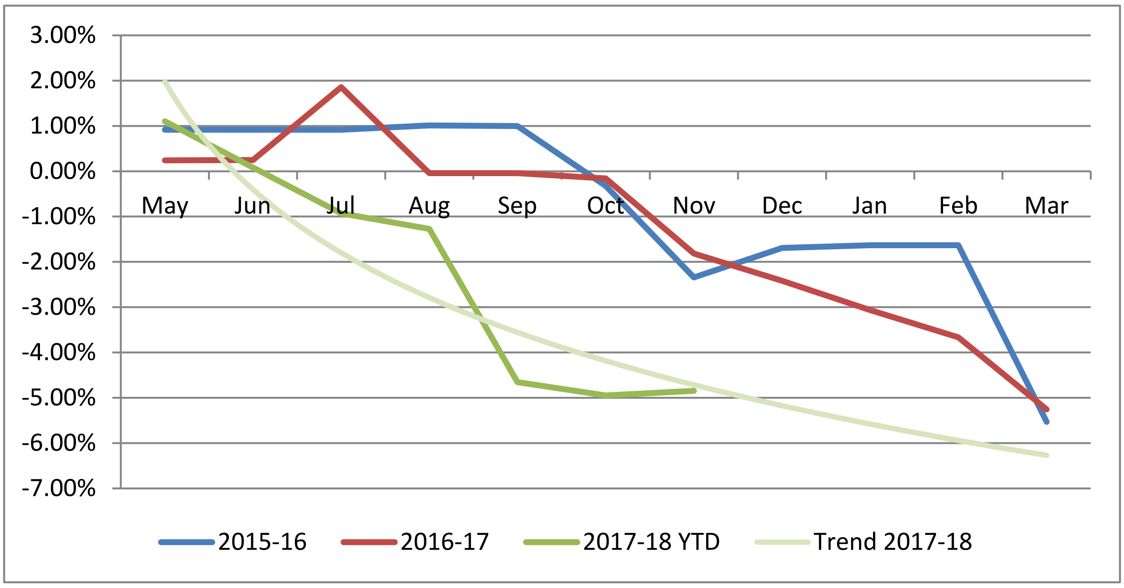
3.2 **Environment & Neighbourhood Services**

Based on the information currently available, the Directorate is reporting a et positive variance against budget at year end of £1. 408m. However, this is the consequence of a much more significant range of variances across a range of budgets including increased costs of £0.5m, reduced income of £0.5m and as yet unrealised savings of £0.6m, offset by an over-achievement of other income and under spend in homelessness.

The gross projected overspend, before mitigations; in DENS is £1.6m £1.0m of this arises in Transport & Streetcare (T&S), where over half the adverse variances arises from unrealised savings, notably a delay in the fleet management saving (£143k), and the off street car parking saving (£175k). T&S also has increased costs and in some areas reduced enforcement income (£100k) in comparison to budget. Planning, Development & Regulatory Services (PDRS) are predicting an adverse variance of £0.30m with the majority of this pressure being due to external legal costs in relation to a noise nuisance case. A one-off pressure of £0.1m relating to recent office moves has been identified but will be funded through the change fund as part of the transformation programme; therefore this has not been included as a pressure for the purpose of this report. Economic & Cultural Development (ECD) are also predicting an adverse variance (£0.4m), relating to reduced income in comparison to budget across a range of service areas.

These overspends are compensated by £3m of positive variances. Of this, £1.6m is increased income, most of which arises in T&S, and include £0.4m additional on street car parking income and £0.4m additional income from green waste.

£1.5m arises from reduced costs in T&S, ECD, PDRS & Housing & Neighbourhood Services (H&NS), notably for T&SC £0.4m across the park & ride contract & concessionary fares and £0.5 for H&NS due to a continuing trend of effective prevention of 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 at the beginning of 2018, the service is aiming to finish the 2017-18 financial year with no more than a total of 50 occupied rooms. This would lead to an underspend of approximately £0.5m at year end.



3.3 Children, Education & Early Help Services

The Directorate is currently reporting a net negative variance of £2.487m for the year which represents 6.32% of the annual budget. The forecast assumes that the recently produced in year savings programme of £0.603m will be fully delivered.

The gross variance before remedial action is £3.179m, which is largely attributable to the increased complexity of the looked after children (LAC) population amounting to a £2.92m variance. The use of higher cost residential placements has increased significantly during 2017/18.

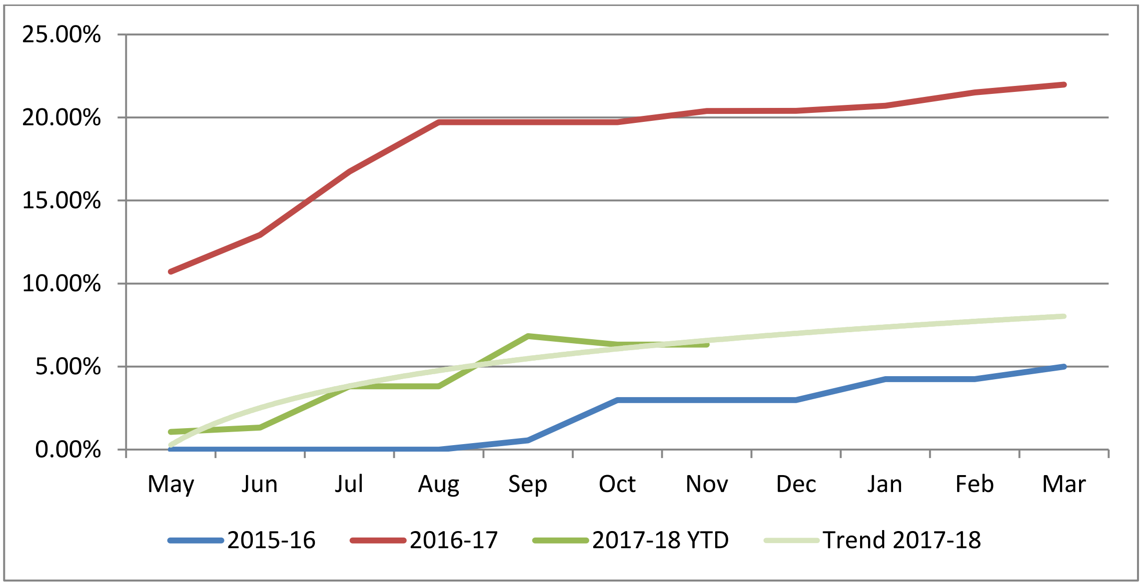
The projection assumes a future in year demand projection, which looks to be an accurate reflection of current position. The only caveat to this is the number of LAC has increased to 285, but the additional placements have been managed in lower cost placements where the forward projection assumed high cost residential placements. This has an impact on the pressure for 2018/19, which is calculated at £4.85m. In addition, the MTFS for 2018-19 makes provision for a further £2m to be held corporately as a contingency.

In addition to this negative variance, the Directorate is facing a £0.259m pressure for home to school transport for SEN pupils. In September, there was an increase in pupils being placed at The Avenue, increasing the demand for transport for SEN pupils. This has been offset in October's monitoring by £11k.

The position reflects the positive variance of £0.1m from the early implementation of the Business Admin restructure required by 1st April 2018 to achieve the proposed savings for 2018/19.

In year savings totalling £0.603m identified are focused on further measures. The measures include restrictions on Agency spend (£0.160m), review of SEN transport (£11k to reduce spend), implementation of restructures in Early Help prior to 1st April 2018 and holding vacant posts, changes to staffing in Children's Social Care (£0.136m) and transfer of young people over 18 to Adults Services (£0.083m).

The paragraphs above describe the impact for the General Fund Services, however the Directorate is also currently anticipating an in year deficit of £2.5m relating to the Dedicated Schools Grant (DSG). This will increase the deficit of the DSG to £3.9m which will be carried forward into 2018/19. The implementation of a new SEN strategy is intended to reduce the burden on the SEN budget when the new school funding formula is introduced in 2018/19. The local flexibility for the DSG will be restricted to 0.5% of the total DSG in 2018/19, which is estimated at £0.4m.



3.4 Adult Care & Health Services

The forecast overspend for the year after remedial action, and in year savings is £0.399m, which compares to a overspend forecast in October, adjusted for in year savings of £0.395m. This represents a position broadly in line with the October monitoring position. There have, however, been some variances within individual areas.

The main changes are increased care package cost and reduced in year savings (£0.297m), offset by increased underspends on Public Health (-£0.212m) and an underspend in the Director and Transformation cost centre (-£0.100m). The forecast assumes that the recently produced in year savings programme of £0.610m, will deliver savings of £0.553m, though some of the initiatives require further review to ensure they are deliverable in the remaining timeframe and in the context of other initiatives.

In terms of the overall position, the gross overspend before remedial action is £2.587m, after taking account of savings still to be delivered of £0.300m. The gross overspend is largely due to pressures on care placements in Learning Disabilities and Mental Health, across all types of service provision, although particularly in residential and community services. After remedial actions and in year savings, the remaining overspend on Learning Disabilities is £1.220m and on Mental Health £0.512m.

For the Learning Disabilities Service, the overspend is due to an additional pressure on residential placements and an overspend on Community Services which is related to increased clients and demography. The forecast includes a contingency for transition costs still to come through before the end of the year.

The adverse variance on Mental Health Services breaks down as £0.112m on placements in nursing homes due to an additional 3 clients being placed over the budgeted number of clients, £0.327m on residential placements based on an additional 9 clients over budget and an overspend of £0.073m on Community and other services.

The original DACHS savings programme for 2017-18, targeted savings in total of £4.067m. The forecast as presented assumes savings delivered will be £3.885m, representing a shortfall of £0.182m, though also 95% achievement of the original programme.

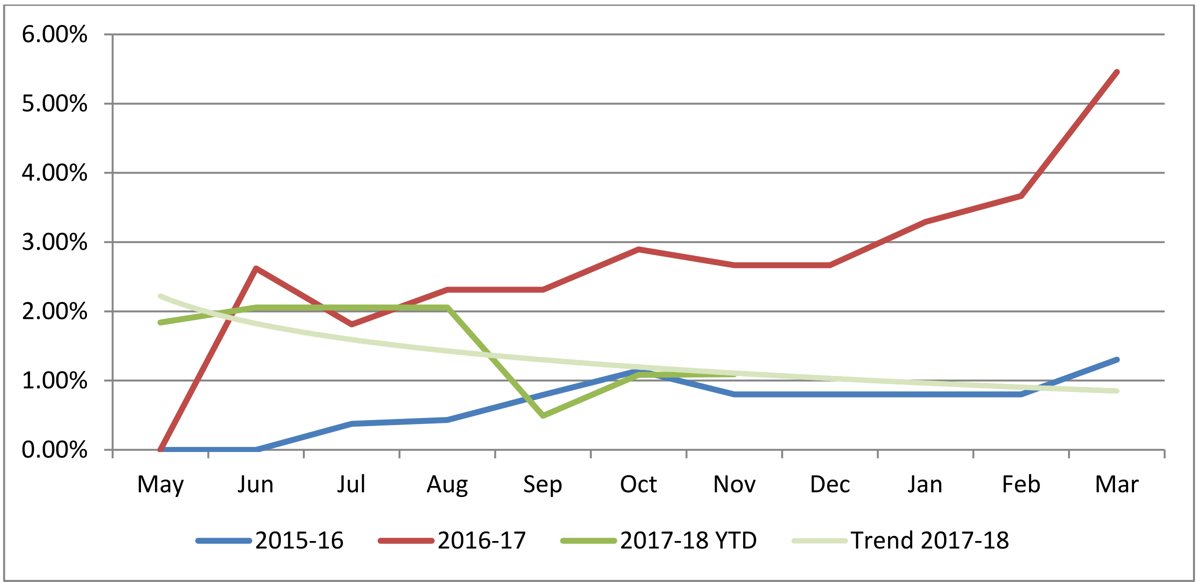
The Directorate has also identified £2.032m of positive variances and remedial action to reduce the gross overspend. This comprises £0.591m of underspends on budgets which are to be maintained until year end, specific remedial actions of £0.831m and new in-year savings of £0.610m. The main remedial actions identified to reduce the deficit have included reworking the use of elements of the Public Health grant (£0.365m), keeping inflation awards to a minimum with providers (£0.250m) and trying to find savings from either reworking service delivery or holding vacancies (£0.600m). 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 retained housing benefit funding (£0.121m) to reduce pressure on extra care and proposes capitalising costs of implementing new computer systems and software (£0.056m).

In year savings totalling £0.610m, are focussed on further measures, which includes, restrictions on agency spend (£0.150m), increasing Funded Nursing Care (FNC) and Continuing Health Care (CHC) funding (£0.150m), Public Health spend reductions on contracts (£0.112m), savings from reduced voids (£0.070m), Telecare spend reductions (£0.060m) and a range of other smaller reductions totalling £0.068m.

Against the target for remedial action and in year savings a shortfall of £0.110m is forecast, which is due to shortfalls in savings against Performance staffing, Maples Day Services and agency staff.

Further remedial actions are still being sought; with the aim of bringing spend back in line with budget.

In addition issues have been identified with the links between the Mosaic and Fusion systems which could potentially impact on care payments forecasts. An analysis of actuals is being undertaken to cross check against the forecast from Mosaic, to identify any issues and give added assurance on the forecast, which will be completed to inform the December monitoring position.



3.5 Corporate Support Services

The Directorate is reporting an underspend of £186K which is an adverse swing of £46K compared to last month due to additional costs identified of £60k relating to the Housing Benefit Subsidy with minor positive variances in other areas. Although an adverse variation, the claim result is actually a significant improvement on the previous two years where our subsidy loss has exceeded £500k. This year (on over £80m benefit expenditure) it is reduced to £223k, reflecting the improved checking and processes implemented, as has been reported to Audit & Governance Committee.

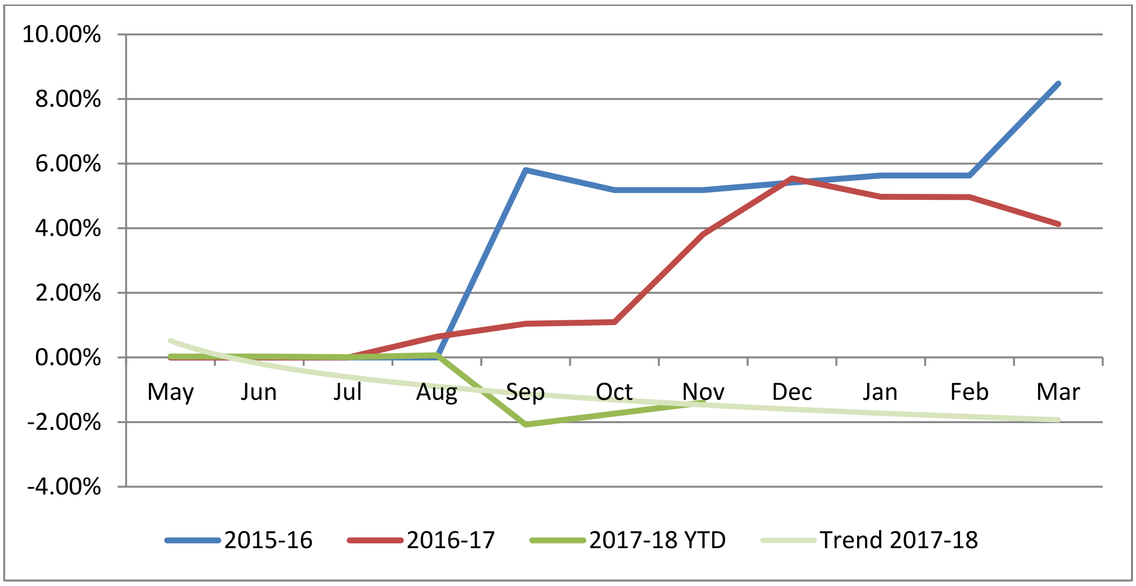
For the Directorate as a whole, the most significant variance sits within the Childcare Lawyers service; this is a Berkshire wide joint arrangement operated by Reading Borough Council. Increased caseloads and duration of cases due to their complexity means the team is employing interims and agency staff over and above establishment at an additional cost of £956K. 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 £20k under budget.

The digitisation saving that is currently held within the Corporate budget is being shown as a pressure (£154K) 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 directorate to work towards digitisation.

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. A Chief Accountant has been recruited and has started at the beginning of January to provide technical accounting leadership. During this period of transformation for Finance & Accountancy, additional interim staff have been brought in to cover vacant posts and provide stability to the team at an additional cost of £338K. It is also anticipated that there will be additional external audit fees of around £100K arising from the additional work that EY have carried out on the audit of 2016/17 accounts. Some of these additional costs will lead to long term improvements in Finance, and organisational savings so could be considered for funding from the change fund in due course.

The overspends in the directorate are mitigated by vacancies being held in the Policy and Voluntary Sector 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.

The vacancies in the Policy and Voluntary Sector have been put forward as ongoing positive variances into 2018/19. The net position for Corporate Support Services is a £37K positive variance going into the next financial year.



3.6 Contingency

A contingency of £7.7m was built into the 2017/18 budget of which it was agreed at Policy Committee in July 2017 that £5.378m would be used to remove undeliverable savings leaving a contingency of £2.3m for this financial year. A further £695K has been used in since July to reprofile savings to future years.

	£'000s
Opening Position 1/4/2017	7,700
Savings removed July Policy Committee	(5,378)
Savings reprofiled July CMT	(121)
Savings reprofiled Aug CMT	(40)
Savings reprofiled Sep CMT	(534)
Remaining Balance at 30/11/2017	1,627

4. TREASURY MANAGEMENT & CORPORATE BUDGETS

4.1 We have further reviewed the capital financing budget position, to take account of the current cash flow and a projection to 31 March, and a review of the apportionment of interest costs and finalised the detailed MRP calculation. We now expect the overall budget to be under spent by £1.05m in 2017/18, though as always there remains some uncertainty, given the larger cash flows expected in the final quarter. In addition, a further projection of capital receipts and their uses will enable £200k to be used to repay debt and hence reduce the MRP payment in line with the agreed MRP policy, by the same amount.

4.2 The Committee may recall from the Annual Treasury Management Strategy Statement that the Council has borrowed £30m on LOBO Terms (where the lender has an option to increase the interest rate, whereupon the Council has an option to repay). Last year one lender of £5m indicated, and provided a deed of variation stating that it would not exercise the options, thus turning the loan into a "vanilla" one.

Recently the Council has been contacted by another lender of £10m setting out outline terms to repay the loan. The Director & Head of Finance are currently considering this proposal which appears to have some merit, and subject to appropriate due diligence and advice may proceed with a repayment during 2018. There will be a substantial premium, but this can be accounted for over the remaining period of the original loans and on initial inspection appears to offer some long term, and possibly shorter term advantages to the Council.

4.3 Other Corporate budgets have also been reviewed, notably the contingency budgets to help fund the Council's share of the Berkshire Pension Fund deficit, most of which is financed by the pensions on-cost on pay across the Council. The latest forecast is that very little of the budget should be needed this year with an expected £400k underspend. Furthermore £100K of the Living Wage "top up" contingency budget is not needed in 2017/18, as the costs are otherwise in the budget. However, currently there are no clear and firm plans to complete the delivery of the £350k across the Council procurement savings (other than those procurement savings already built into directorate savings proposals).

4.4 Additionally, across the Council £100K can be released from budgets this year due to the Christmas leave offer being made to staff and transformation costs are currently forecast to be underspent by £200K this year. Finally, of the £1m set aside in the budget to support the future improvement of Children's Services, which has now been agreed to be through the set-up of the Children's Company, only £500K will be needed this year, so £500k will not be spent in 2017/18.Therefore in total other corporate budgets are forecast to underspend by £950k.

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 remedial action highlighted is carried out, there is a forecast overspend on service revenue budgets of £1.3m. The pressure on service directorate budgets is offset by a favourable position on treasury and other corporate budgets (see para 4.1), so there is an overall underspend of £0.9m forecast. Officers however need to continue to manage tightly spending throughout the remainder of the year to avoid any overspend at the year end.

6. CAPITAL PROGRAMME 2017/18

6.1 To the end of November £21.354m of the original c.£121m programme had been spent and it should be noted that capital spending is usually weighted to the latter part of the year. Officers are reviewing the whole programme and the total spend for 2017/18 is now likely to reduce from c£121m to c£85m (including the assumption we will buy a £21m investment property before the financial year end) as some projects have been pushed back into 2018/19.

Capital Receipts

7.1 The financial strategy depends on successfully obtaining capital receipts to fund the transformation programme and the equal pay settlements. In summary, an estimated £14m is required in 2017/18 for equal pay; £3.2m for the change fund; £1m for redundancy costs and £2m for debt reduction / an MRP contribution. This implies a requirement of £20.2m capital receipts.

7.2 Newark Street delivered a £0.4m receipt in November and Island Road delivered £6.4m in December. Weldale Street (£0.25m) is expected to be completed within this financial year. Negotiations are ongoing on Amethyst Lane (£4.0m) and likely to be completed in 2018/19.

	Non-HRA 17/18	HRA (not 1-1) 17/18	Total 17-18	18/19
Planned	£12.3m	N/A	£12.3m	£2.5m
16/17 b/f	£6.6m	£5.5m	£12.1m	N/A
Of which delivered	£8.2m	£0.2m	£8.4m	£0.0m
Expected shortly	£0.2m	N/A	£0.2m	£0.0m
Total Available			**£20.7m**	
Additional Required	£ 0.0m	N/A	£0.0m	£0.0m

8. HRA

8.1 An analysis of the current expected outturn of operational budgets (for repairs and management costs) projects an under spend of £200k. This includes £100k underspend relating to the revenue repairs budgets and a number of minor variances across the HRA supplies and services budgets as well as a small number of vacant posts.

8.2 The latest review of the HRA capital financing position for 2017/18 has identified those costs should be around £10.5m, which represents a £100k underspend. The current projection 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.

8.3 An analysis of the MRA funded capital expenditure is shown below. The majority of the expected underspend in 2017/18 relates to work the water mains at Coley High Rises which is likely to slip into 2018/19:

	Budget	Actual spend at 30/11/2017	Projected Outturn
	£'000	£'000	£'000
HRA-Major Repairs	7,248	2,445	6,352
HRA-Hexham Road Project	1,200	218	1,200
Disabled Facilities Grants	390	195	509

(Local Authority Tenants)			
Total	**8,838**	**3,114**	**8,061**

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;
- Significant additional demand (and change in caseload mix) 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 were not reviewed in November and the next review will be at the end of December.

10.2 The expanded RAG status in terms of progress is summarised below:

	September Position		October Position	
	£000	**%**	**£000**	**%**
Blue (fully delivered)	7,261	49.7%	7,337	50.9%
Green (on track)	3,318	22.7%	3,287	22.8%
Amber (<10% off track)	2,770	18.9%	2,725	18.9%
Red (>10% off track)	1,270	8.7%	1,070	7.4%
Grey (undeliverable)	0	0.0%	0	0.0%
Total	**14,619**	**100.0**	**14,419**	**100.0**

10.3 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 November 2017 position is:

Council Tax	**2017/18 £000**	**Previous Year's Arrears £000**	**Total £000**
Target	68,925	1,350	70,275
Actual	68,564	1,420	69,984
Variance	**361 under**	**70 over**	**291 under**

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 November 2017, collection for

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[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

the year to date was 73.71% compared to a target of 73.88%, and collection is slightly behind 2016/17 (74.01% by end of November 2016).

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

Business Rates	2017/18 £000	2017/18 %
Target	93,143	72.00%
Actual	97,115	72.46%
Variance	**3,972 over**	**0.46%**

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of November 2016, 70.96% of rates had been collected. The actual for November 2017 was boosted by the in year transfer of the Council's rates charges, which was done in December last year. Adjusting for this suggests underlying collection at 69.6% is lagging slightly behind last year.

The high variance this month is due to the Council paying the NNDR for its own properties in November rather than in January as budgeted and therefore collection is ahead of target. This is a timing issue and the overall collection is still forecast to be broadly on target at the end of the year.

12. OUTSTANDING GENERAL DEBTS

12.1 The Council's outstanding debt total as at 30 November 2017 stands at £4.989m in comparison to the 31st March figure of £4.280m. This shows an increase of £0.709m, and we note that £2.934m of the balance as at 30 November 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 Assessments was undertaken for the 2017/18 budget as a whole.

18. BACKGROUND PAPERS

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