READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**POLICY COMMITTEE**		
DATE:	**27 NOVEMBER 2017**	**AGENDA ITEM:**	**12**
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 September 2017. It also contains information on the capital programme, capital receipts and the Housing Revenue Account (HRA).

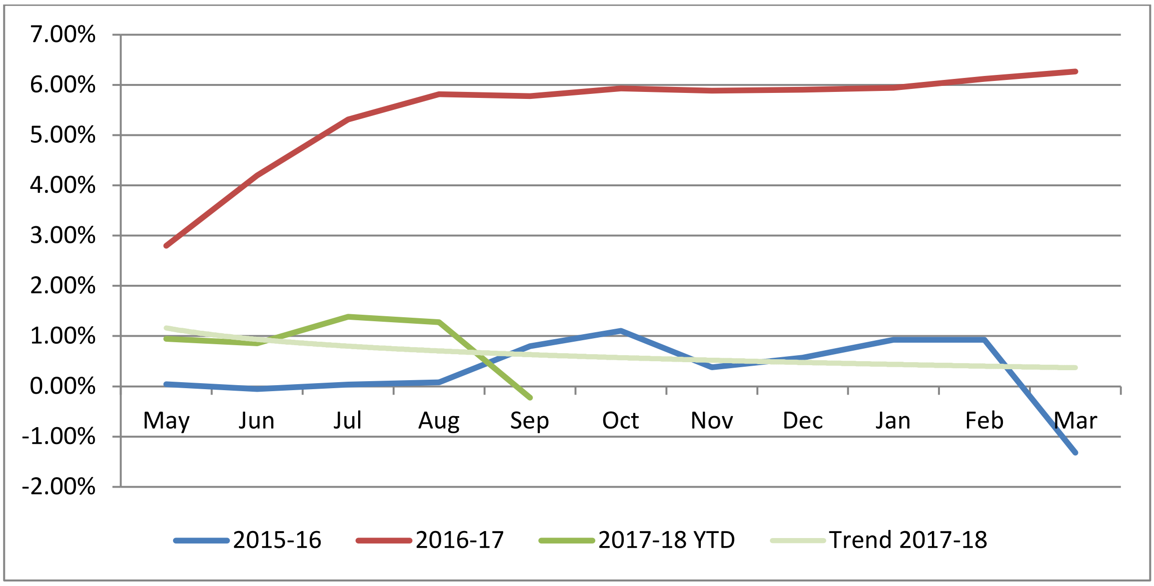
1.2 It is projected that, due to a variety of reasons, the revenue budget will be underspent by £0.3m as at the year end, without using the remaining contingency of £1.6m set aside to manage unexpected pressures and savings shortfalls. There remain some serious concerns. In particular,

1.2.1 the total of negative variances is £8.4m, 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 £6.4m at this stage, some of which is a projection of growth in children's social care demand into that year. This pressure will need to be dealt with in 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. Further strong management is required in order to prevent further overspending.

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. Policy Committee to note that based on the position at the end of September 2017, budget monitoring forecasts that the budget will be underspent by £0.3m, without using the remaining contingency of £1.6m.

2.2. Policy Committee to note that additional proposals have been identified in order to reduce the projected spend in 2017/18.

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	1,335	-2,558	-100	-1,353	-4.7%	-5,903	876 (see*1)
Childrens, Education & Early Help Services/	3,190	-100	-400	2,690	6.8%	-1,868	3,800
Adults Care and Health Services inc. Public Health	2,162	-542	-1,441	179	0.5%	-3,267	1,767
Corporate Support Services	1,619	-1,396	-496	-273	-2.1%	-2,311	-37
Directorate Sub total	**8,306**	**-4,596**	**-2,437**	**1,243**		-13,349	**6,406**
Treasury		-250		-250			
Corporate Budgets		-1,280		-1,280			
Total	**8,306**	**-6,126**	**-2,437**	**-287**		-13,349	**6,406**

*1 The £876k 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 £14,619K.

3.2 Environment & Neighbourhood Services

Based on the information currently available, the directorate is reporting a net positive variance against budget at year end of £1,353k. However, this is the consequence of a much more significant range of variances across a range of budgets including increased costs of £0.4m, reduced income of £0.3m and as yet unrealised savings of £0.6m, offset by an over-achievement of other income and under spend in homelessness. The change from last month's reported figure is, in part due to an agreed re-profiling of savings leading to £0.5m of the contingency to be used to offset these savings during the 17-18 financial year. Whilst this improves the DENS position the impact on the overall corporate positon is net nil.

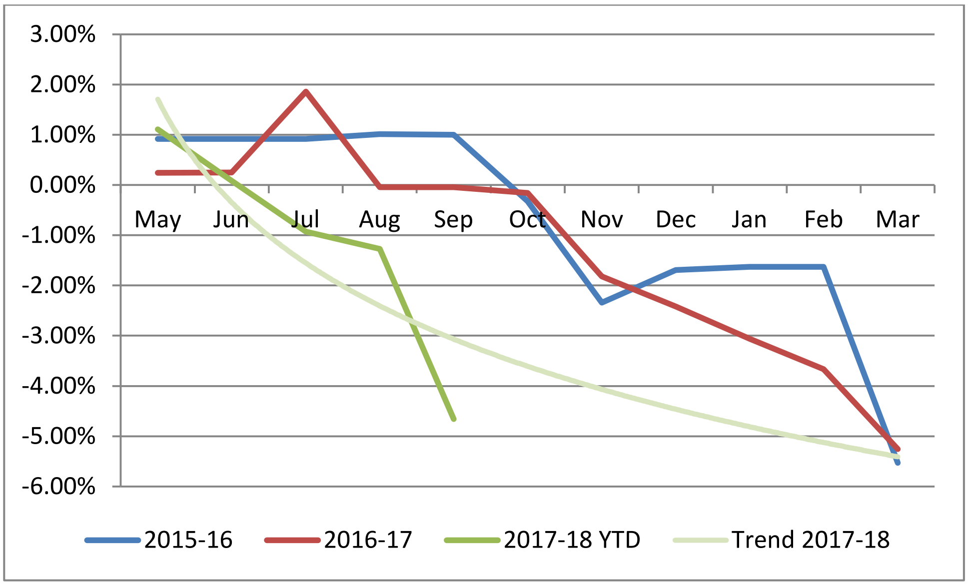
The gross projected overspend, before mitigations; in DENS is £1.3m £1.0m of this arises in Transport & Streetcare (T&S), where half the adverse variances arises from unrealised savings, notably a delay in the fleet management saving (£143k), and the off street car parking saving (£175k). T&S also has increased costs and in some areas reduced enforcement income

(£100k) in comparison to budget. Planning, Development & Regulatory Services are predicting an adverse variance of £0.20m 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 (£0.2m), relating to reduced income in comparison to budget across a range of service areas.

These overspends are compensated by £2.7m of positive variances. Of this, £1.4m is increased income, most of which arises in T&SC, and include £0.4m additional on street car parking income and £0.4m additional income from green waste.

£1.3m arises from reduced costs in T&SC, 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. Since last month's report, a further £145k forecast reduction in expenditure against the bed & breakfast budget in H&NS and a positive variance of £0.8m against the rent top up budget reflects 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.

The chart below shows the current and previous years' trends in budget monitoring.



3.3 Children, Education & Early Help Services

The Directorate is currently reporting a negative variance of £2.69m for the year, which represents 6.8% of the annual budget. This negative variance is largely attributable to the increased complexity of the looked after children (LAC) population amounting to £2.92m variance. The use of residential placements has increased significantly during the year.

There has been a change in profile of the LAC population as a result of increased risk in the criminal exploitation of vulnerable children, which falls under the category of (Child Sexual Exploitation) CSE County Lines. CSE County Lines (i.e. cross-boundary) is evidenced through drugs, violence, gangs, safeguarding, criminal and sexual exploitation, modern day slavery and missing persons. The Directorate has been operating within the Home Office guidelines for CSE County Lines, with a link attached below, for a greater understanding of the issues.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/626770/6_3505_HO_Child_exploitation_FINAL_web__2_.pdf

In addition to this, the issue of Female Genital Mutilation (FGM) and Forced Marriage are on the increase, with a recent example of the Service having to manage the removal of a young person who was a flight risk. There has also been an increase in the number of young people at risk from Honour Based Violence.

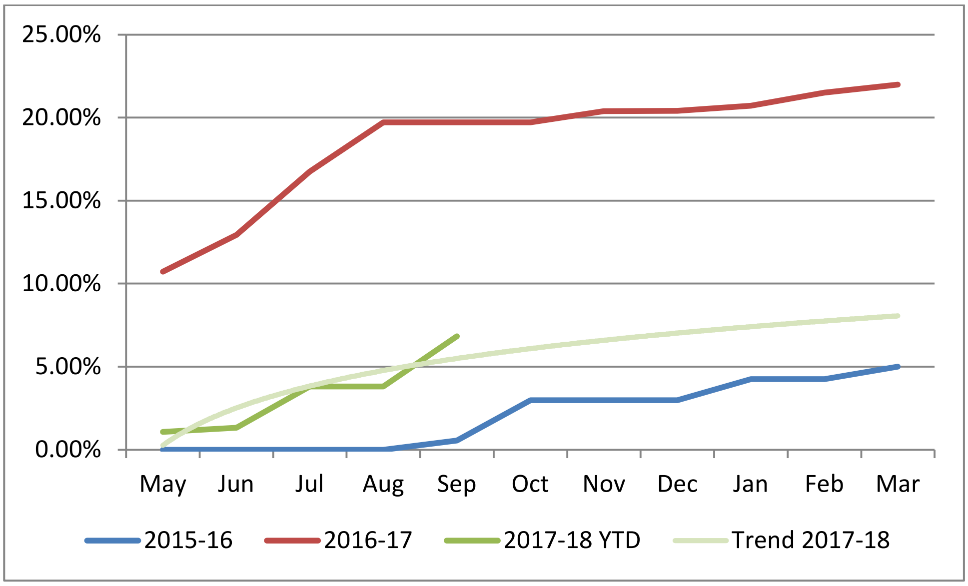
The increase in the sex offences within the LAC population has resulted in 2 young people, aged 13 and 14 to be placed in residential provision as an alternative to a Secure Training Centre. The typical difference in weekly cost between these types of provision is approximately £3,200, an average IFA placement costs £800 per week compared to average Residential placements costs of £4,000 per week.

The outturn projection of £2.92m overspend includes a future demand prediction of £800k where placement types will change to a residential to ensure the above Home Office guidelines are adhered to. This has an impact on the pressure for 2018/19, which is calculated as £3.8m. This includes an estimate of £1.2m for anticipated demographic changes in 2018/19.

In addition to the LAC negative variance, the Directorate is also facing a £270k pressure for home to school transport for SEN pupils. In September there has been an increase in Reading pupils being placed at The Avenue School, which has increased the demand for SEN home to school transport.

The above negative is offset by a positive variance of £100k from the early implementation of the Business Admin restructure required by 1st April 2018 to achieve the proposed savings for 2018/19.

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.



3.4 Adult Care & Health Services

Largely due to pressures on care placements in Learning Disabilities and Mental Health, a gross overspend of £2.162m is projected for DACHS, after savings of £0.520m forecast, though not yet delivered, have been taken into account. The most significant pressures are in Learning Disability Services £1.3m and Mental Health £0.5m and occurs across all types of service provision, although particularly in residential and community services.

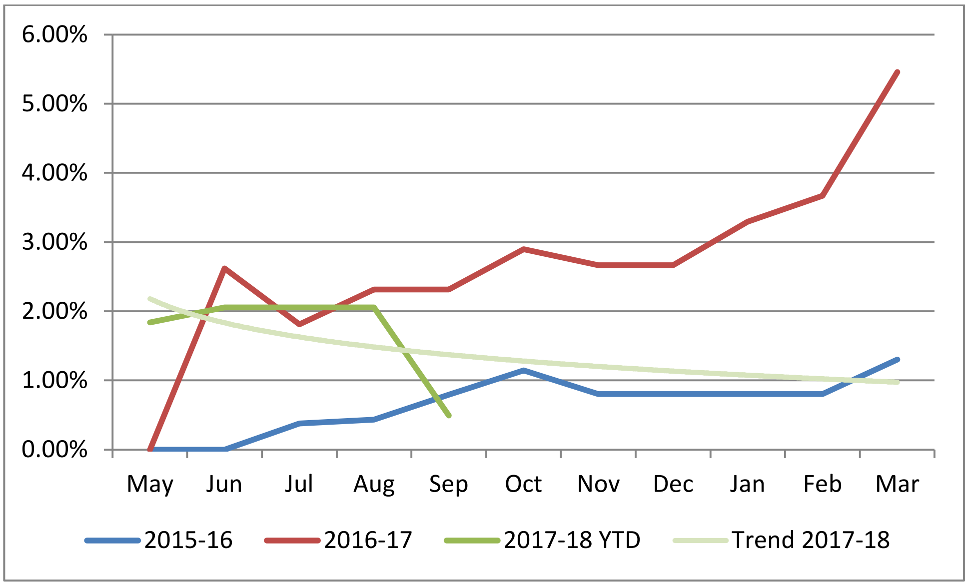
For the Learning Disabilities Service, the overspend is due to an additional £0.638m on residential placements because the average cost of placements are £48 per week per client higher than budgeted and client numbers are around 8 more than the budget. There is also a £0.649m overspend on Community Services which is related to the clients and demography but is difficult to assign to exact client numbers. The forecast includes a contingency for transition costs still to come through before the end of the year of £0.250m.

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, £0.347m on residential placements based on an additional 9 clients over budget and an overspend of £37K on Community Services.

So far the Directorate has identified £1.983m of positive variances and remedial action to reduce the gross overspend. 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 (£0.581m). 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 of £0.121m to reduce pressure on extra care and proposes capitalising costs of implementing new computer systems and software (£0.056m). Further in-year savings of £0.610m across a range of service areas, have also been identified, which reduce the forecast overspend to after remedial action, £0.179m, which is a reduction of £0.571m on the position reported in August. As most of the remedial action is one-off it is forecast that the pressure on 2018/19 budgets currently stands at £1.767m.

It should be noted that £0.300m of savings remain amber/red and are at risk of not being delivered. These are within the project for reviewing and right-sizing packages. 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 and reviewing the resources available to review packages.

In addition issues have been identified with the links between the Mosaic and Fusion systems which could potentially impact on care payments forecasts. This is currently under review and could result in further spend pressure, subject to the outcome of these investigations.



3.5 Corporate Support Services

The directorate is currently reporting a £273k underspend against a £13.1m budget, of which £400K are additional remedial actions identified this month. 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

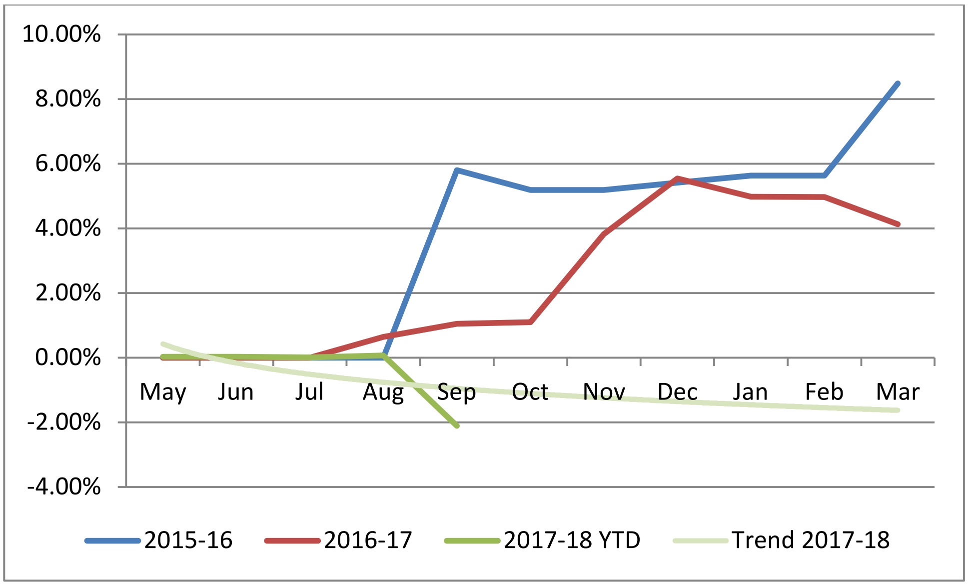
Berkshire LA's, including administration fees, causing a positive variance on income which offsets the negative variance on costs. The RBC element of the Joint Arrangement is currently expected to be in line with the budget.

The digitisation saving that is currently held within the Corporate budget is being shown as a pressure (£155K) 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.

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 to start 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 £248K. 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 30/9/2017	1,627

Since last month, two savings in DENS have been re-profiled from 2017/18 to future years: £250K has been moved across 2018/19 and 2019/20 relating to business development and £284K has been moved to 2019/20 relating to the refuse collection saving.

4. TREASURY MANAGEMENT & CORPORATE BUDGETS

4.1 The review of the capital financing budget has identified a further underspend taking account of the cashflow to date and prospects for the rest of 2017/18, but in order to help meet the extra costs of the Finance function, it is requested a £150k in-year budget virement is done, so the budget that was £10m continues to forecast a £250k underspend. There remain some uncertain factors impacting the budget, though these have reduced over the course of the month.

Other Corporate budgets have been reviewed, notably the contingent 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. The latest forecast is that very little of the budget should be needed this year with an expected £400k underspend. (The forward year impact of this has also been reviewed and is being built into the budget build and next MTFS update). Furthermore £80K of the Living Wage "top up" contingency budget is not needed in 2017/18, as the costs were covered in the original budget build.

Additionally, it is estimated that across the Council £200K can be released from budgets this year due to the Christmas leave offer being made to staff. Recent review of transformation costs has shown the revenue change fund will be underspent by £400K this year and a further projection of capital receipts and their uses will enable £200k to be used to repay debt and hence reduce the MRP payment by the same amount.

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 £1.2m.

5.2 The pressure on service directorate budgets is offset by a slightly favourable position on treasury and other corporate budgets (see para 4.1), so there is an overall underspend of £0.3m forecast. Officers must therefore continue to manage tightly spending throughout the remainder of the year to avoid any overspend.

6. CAPITAL PROGRAMME 2017/18

6.1 To the end of September £13.147m 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£99m (including the assumption we will buy a £30m investment property before the financial year end) as some projects have been pushed back into 2018/19.

7. 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 There have been no additional receipts since the last update. Final completion on the Island Road transaction is now forecast to be in January 2018. Negotiations are ongoing on Amethyst Lane.

	2017/18	HRA (not 1-1) 17/18	Total 2017-18	2018/19
Planned	£12.3m	N/A	£12.3m	£2.5m
16/17 b/f	£6.6m	£5.5m	£12.1m	N/A
Of which delivered	£1.4m	£0.2m	£1.6m	£0.0m
Expected shortly*	£10.4m	N/A	£6.3m	£0.0m
Total Available			£20.0m	
Additional Required	£ 0.5m	N/A	£0.2m	£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 £50k. This is due to a number of minor variances across the HRA supplies and services and premises cost budgets.

8.2 A half year review of the likely HRA capital financing position for 2017/18 has identified those costs should be around £10.1m, which represents a £500k 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.

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 are subject to a monthly review. The expanded RAG status in terms of progress is summarised below:

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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

	August Position		September Position	
	£000	**%**	**£000**	**%**
Blue (fully delivered)	6,080	40.1%	7,261	49.7%
Green (on track)	3,989	26.3%	3,318	22.7%
Amber (<10% off track)	2,770	18.3%	2,770	18.9%
Red (>10% off track)	2,314	15.3%	1,270	8.7%
Grey (undeliverable)	0	0.0%	0	0.0%
Total	**15,153**	**100.0**	**14,619**	**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.

10.3 An exception report for £534K relating to re-phasing of two savings in DENS (as detailed above in s3.6) was agreed by Corporate Programme Delivery Group in September and budget has been moved from the contingency to offset this change.

11. COUNCIL TAX & BUSINESS RATE INCOME

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

Council Tax	**2017/18 £000**	**Previous Year's Arrears £000**	**Total £000**
Target	52,356	1,190	53,546
Actual	51,910	1,232	53,142
Variance	**(446) under**	**42 over**	**(404) 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 September 2017, collection for the year was 55.64% compared to a target of 56.12%, and collection is slightly behind 2016/17 (56.14% by end of September 2016). A backlog was recently identified in the billing department, which has had a direct impact on collection as customers will not be in receipt of the correct bill in order to make payment. Resources have been redirected within the teams and have already reduced the backlog by 1500 items within 2 weeks. It is believed that this effort will assist in improving collection as the initial focus has been on income generating work items (opposed to discounts/exemptions, which simply reduce the overall debit owing). We are yet to analyse the impact of the increase of contributions from CTS customers.

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

Business Rates	2017/18 £000	2017/18 %
Target	70,448	54.00%
Actual	70,497	52.57%
Variance	**49 over**	1.32% under

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of September 2016, 52.98% of rates had been collected.

12. OUTSTANDING GENERAL DEBTS

12.1 The Council's outstanding debt total as at 31 August 2017 stands at £5.678m in comparison to the 31st March figure of £4.280m. This shows an increase of £1.398m, and we note that £3.618m of the balance as at 30 September 2017 is greater than 151 days old. Part of the explanation is that in August the Council raised 5 invoices to neighbouring authorities and the NHS equating to £2.9m. These will be paid in full but can take a couple of months to go through their systems. In addition there are a further 7 invoices outstanding in excess of £100k each (total £1m) owing from NHS and other authorities, which will also be paid in due course. At least £1m (some of which is accounted for in the previous sentence – NHS) of the over 151 days old debt is owed from just 25 customers, predominantly accounts of deceased persons where we are waiting for sale of property, and NHS accounts (the NHS owes over £1.4m of the aged debt).

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.