READING BOROUGH COUNCIL

REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**POLICY COMMITTEE**		
DATE:	**19 FEBRUARY 2018**	**AGENDA ITEM:**	**14**
TITLE:	**BUDGET MONITORING 2017/18**		
LEAD COUNCILLOR:	**COUNCILLORS LOVELOCK/ PAGE**	**PORTFOLIO:**	**FINANCE**
SERVICE:	**FINANCIAL**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**PETER LEWIS**	**TEL:**	**01189372058 (x72058)**
JOB TITLE:	**STRATEGIC DIRECTOR OF FINANCE**	**E-MAIL:**	**Peter.Lewis@reading.gov.uk**

1. EXECUTIVE SUMMARY

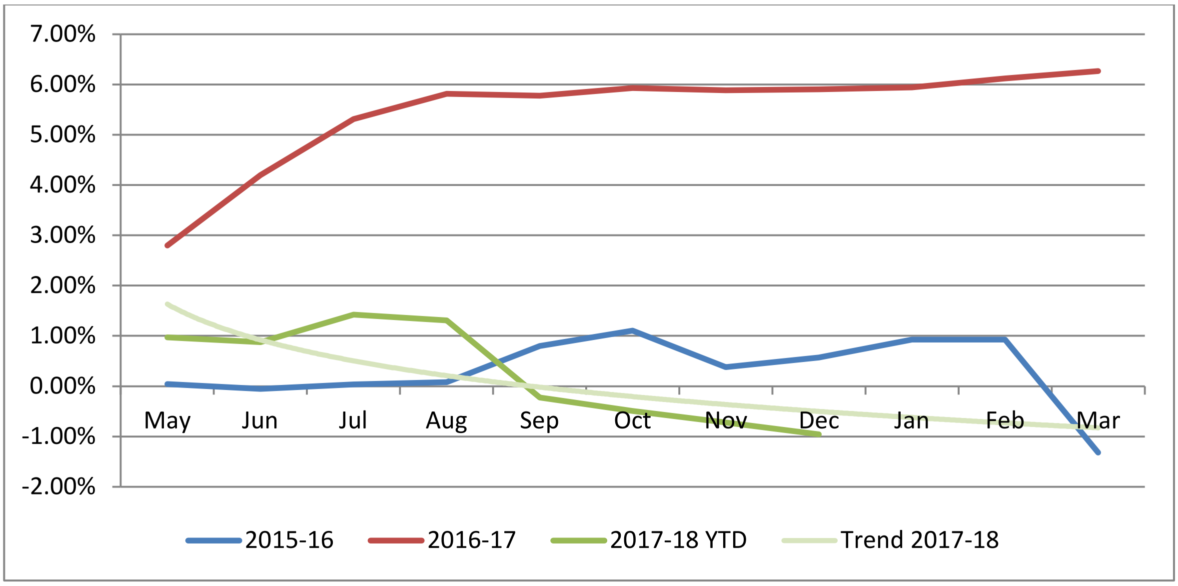
1.1 This report sets out the projected Council revenue budget outturn position for 2017/18 based on actual, committed and projected expenditure for the Council as at the end of December 2017. It also contains information on the capital programme, capital receipts and the Housing Revenue Account (HRA).

1.2 It is projected that the revenue budget will be underspent by £1.2m as at the year end. At this point in time there are no projected commitments against the remaining contingency of £1.6m; unexpected pressures or undelivered savings would be a first call on this contingency. The budget remains under pressure. In particular,

1.2.1 the total of negative variances is £9.8m, which includes some projection of further pressures on care places through to the year-end. If these projections prove underestimated then there would be more pressure on the budget within 2017/18. Ongoing strong management is required in order to prevent further overspending during the remainder of 2017/18.

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 £7.245m at this stage; this pressure and a further projection is being built into the budget for 2018/19;

1.3 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. It is noteworthy that the graphs illustrate improved financial projections and control in 2017/18 than in previous years, despite the pressures that are upon the budget.



2. RECOMMENDED ACTION

2.1. To note that based on the budget position at the end of December 2017, it is projected that the budget will be underspent by £1.2m, 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	18/19 impact £000
Environment & Neighbourhood Services	1,979	-3,757	-105	-1,883	-6.5%	680
Children's, Education & Early Help Services/	3,365	-313	-379	2,673	+6.8%	4,850
Adults Care and Health Services inc. Public Health	2,626	-596	-1,644	386	+1.1%	1,752
Corporate Support Services	1,794	-1,521	-450	-177	-1.3%	-37
Directorate Sub total	**9,764**	**-6,187**	**-2,578**	**999**		**7,245**
Treasury		-1,250		-1,250		
Corporate Budgets		-950		-950		
Total	**9,764**	**-8,387**	**-2,578**	**-1,201**		**7,245**

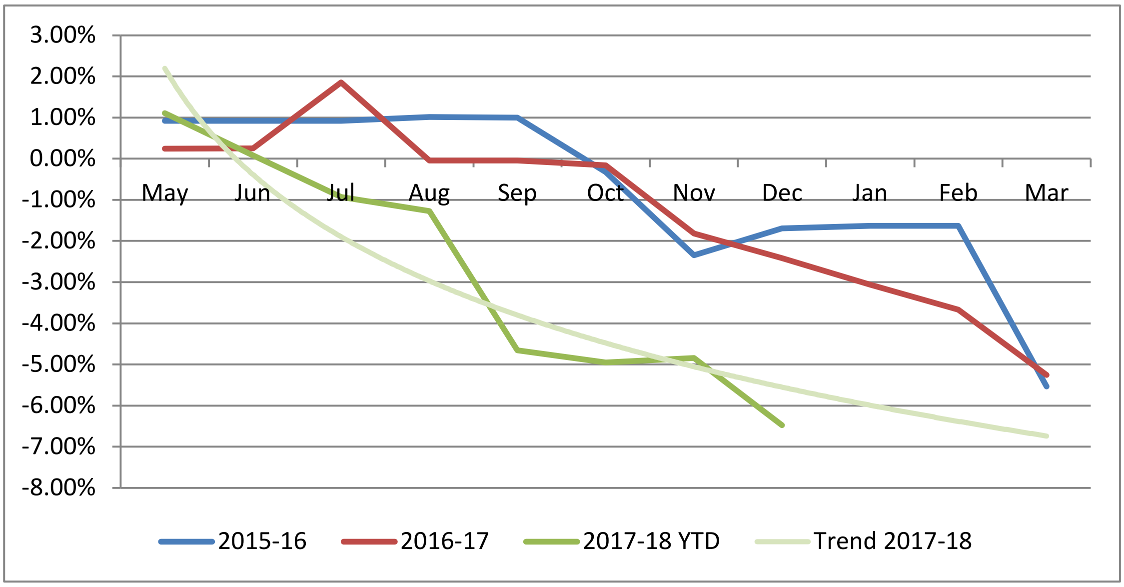
3.2 **Environment & Neighbourhood Services**

Based on the information currently available, the directorate is reporting a net positive variance against budget at year end of £1.9m. 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 £0.9m 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 predominantly due to an increase in rental income of £0.3m relating to the purchase of an investment property in December 2017.

The gross projected overspend, before mitigations; in DENS is £2.0m. £1.1m of this arises in Transport & Streetcare (T&S), where half the adverse variances arises from unrealised savings, notably the fleet management saving (£0.14m), and the off street car parking saving (£0.18m). T&S also has increased costs and in some areas reduced enforcement and other income 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 and increased staffing costs. 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 (£0.1m), relating to reduced income in comparison to budget across a range of service areas.

These overspends are compensated by £3.9m of positive variances. Of this, £2m 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. PDRS has also achieved additional income, including £0.3m relating to rental income from an investment property purchased at the end of 2017.

£1.8m 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 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 £2.673m for the year which represents 6.8% 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 £3.364m, which is largely attributable to the increased complexity of the looked after children (LAC) population amounting to a £3.105m variance. The use of higher cost residential placements has increased significantly during 2017/18.

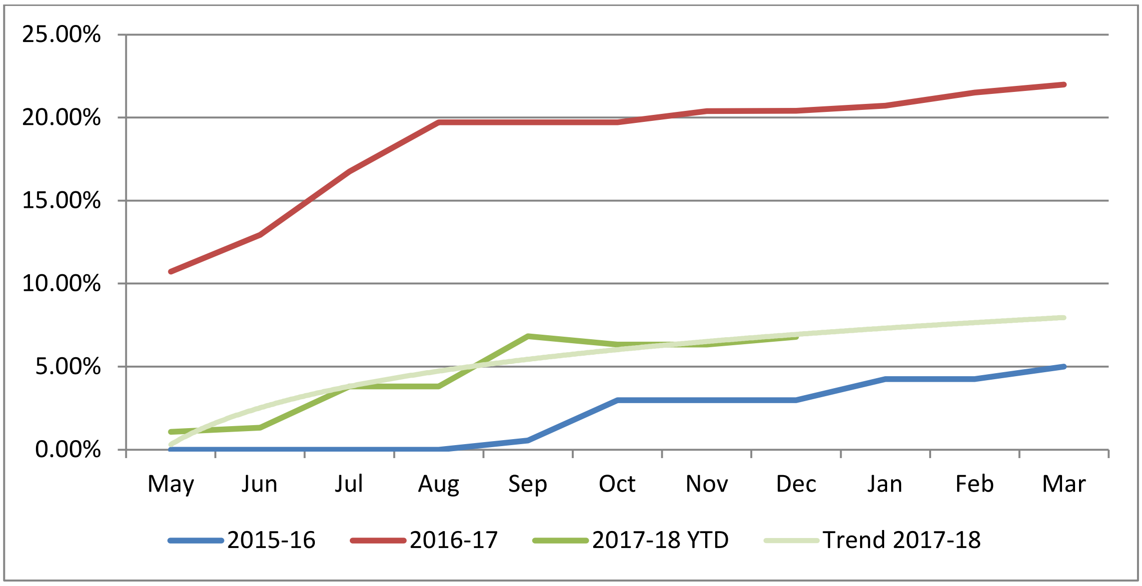
The projection assumes a future in year demand projection, but there has been a significant increase in LAC external placements during the Christmas period including one complex placement requiring 2:1 care at a cost of £7,400 per week. The budget pressure of these requirements for 2018/19 is calculated at £4.85m. In addition, the MTFS for 2018-19 makes provision for a further £2m to be held corporately as a contingency in the event of more pressures beyond those currently anticipated.

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. 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 £0.386m, which compares to a overspend forecast in November of £0.399m. This represents a position broadly in line with the November monitoring position. There have, however, been some variances within individual areas.

In terms of the overall position, the gross overspend before remedial action is £2.626m, after taking account of savings still to be delivered from the original programme 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 £1.218m and on Mental Health £0.534m.

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. This equates to 13 additional packages in Learning Disabilities and 47 additional packages in Mental Health in comparison to budget assumptions at the start of the year. The forecast includes a contingency for transition costs of £0.250m still to come through before the end of the year.

The adverse variance on Mental Health Services breaks is due mainly to additional client costs in residential and nursing placements, though there is also an overspend on Community and other services.

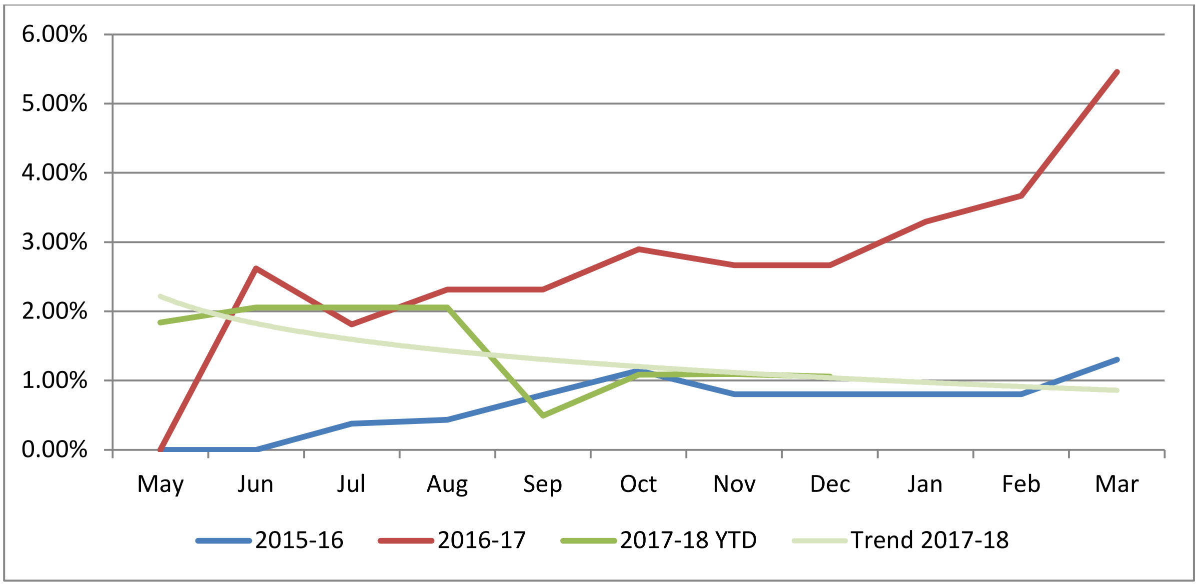
The original DACHS savings programme for 2017-18, targeted savings in total of £4.067m. The forecast as presented assumes savings delivered will be £3.885m, representing a shortfall of £0.182m, which is 95% achievement of the original programme.

The Directorate has also identified £2.240m of positive variances and remedial action to reduce the gross overspend. This comprises £0.596m of underspends on budgets which are to be maintained until year end, specific remedial actions of £1.101m and new in-year savings of £0.543m. The main remedial actions identified to reduce the deficit have included reworking the use of elements of the Public Health grant, keeping inflation awards to a minimum with providers, and trying to find savings from either reworking service delivery or holding vacancies. 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 to reduce pressure on extra care and proposes capitalising costs of implementing new computer systems and software.

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

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 sense check against the forecast from Mosaic, to identify any issues and give added assurance on the forecast, which will be reported in the next forecast.



3.5 Corporate Support Services

The Directorate is reporting an underspend of £177K which is a small adverse swing of £9K compared to last month; this relates to minor changes to variances across the services.

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 £966K. 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 £10k under budget.

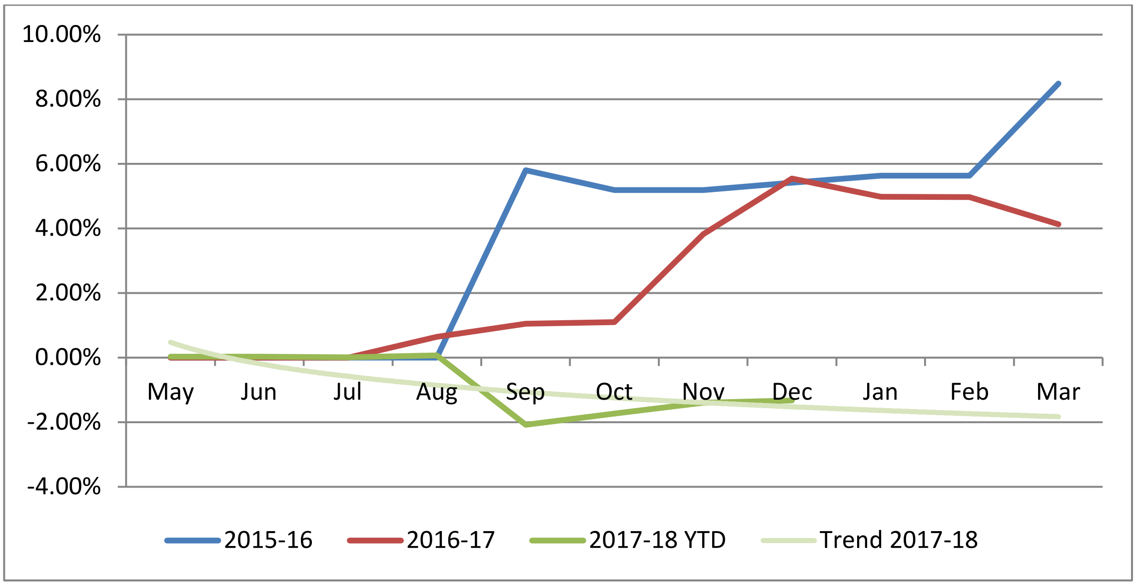
The digitisation saving that is currently held within the Corporate budget is being shown as a pressure (£154K) whilst more detailed work is ongoing to identify how this saving will be achieved. In order to deliver this saving CMT have recently agreed to give targets to each directorate to work towards digitisation.

The Finance & Accountancy Team are currently undergoing a period of transformation with a new structure expected to be in place by April 2018. 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 new Chief Accountant 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 £347K. It is also anticipated that there will be additional external audit fees of around £100K arising from the extra 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 the ability to support organisational change and savings, so are being considered for funding from the change fund.

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 £1.0m. 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 £1.2m 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 December £46.487m 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. (The amount spent includes the purchase of a £20m investment property.) Officers are reviewing the whole programme and the total spend for 2017/18 is now likely to reduce from c£121m to c£83m 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 Island Road delivered £6.4m in December. HRA property at 10 Sun Street was sold at auction - £220k to be received in January. 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	£0.2m	£0.4m	£0.0m
Total Available			**£20.9m**	
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 31/12/2017	Projected Outturn
	£'000	£'000	£'000
HRA-Major Repairs	7,248	3,418	6,070
HRA-Hexham Road Project	1,200	853	1,400
Disabled Facilities Grants (Local Authority Tenants)	390	252	509
Total	**8,838**	**3,114**	**7,979**

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. COUNCIL TAX & BUSINESS RATE INCOME

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

Council Tax	**2017/18 £000**	**Previous Year's Arrears £000**	**Total £000**
Target	77,602	1,420	79,022
Actual	77,110	1,489	78,599
Variance	**492 under**	**69 over**	**423 under**

10.2 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 December 2017, collection for the year to date was 82.87% compared to a target of 83.18%, and collection is slightly behind 2016/17 (83.04% by end of December 2016).

10.3 Business Rates Income to the end of December 2017

Business Rates	2017/18 £000	2017/18 %
Target	105,135	81.40
Actual	105,003	81.30
Variance	**132 under**	**-0.10**

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of December 2016, 79.06% of rates had been collected.

11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 31 December 2017 stands at £4.773m in comparison to the 31st March figure of £4.280m. This shows an increase of £0.493m, and we note that £2.807m of the balance as at 31 December 2017 is greater than 151 days old.

11.2 With regards to debt that is greater than 151 days old, there has been a 5% reduction in this debt since April 2017. The central team has recently taken on responsibility for the collection of NHS debts. This has led to a significant improvement in the value owing by them following intervention, resulting in the old debt reducing. The team is also looking at alternative approaches to how other older debt is tackled following this success.

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. The Council's constitution envisages remedial action is implemented when there are adverse budget variances.

16. EQUALITY IMPACT ASSESSMENT

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

17. BACKGROUND PAPERS

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