REPORT BY STRATEGIC DIRECTOR OF FINANCE

TO:	**POLICY COMMITTEE**		
DATE:	**12 MARCH 2018**	**AGENDA ITEM:**	**11**
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

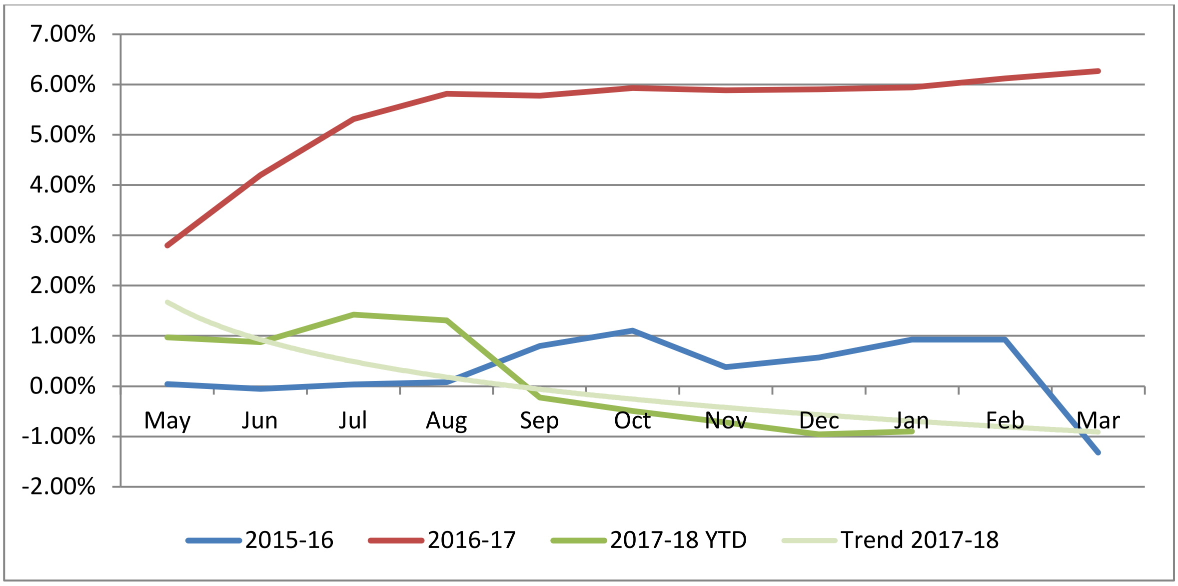
1.1 This report sets out the projected Council revenue budget outturn position for 2017/18 based on actual, committed and projected expenditure for the Council as at the end of January 2018. It also contains information on the capital programme, capital receipts and the Housing Revenue Account (HRA).

1.2 It is projected that the revenue budget will be underspent by £1.1m 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 £10.1m, 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 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 January 2018, it is projected that the budget will be underspent by £1.1m, 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	Jan Net Variation £'000s	% variance budget	Dec Net Variation £000	Movement since Dec £000
Environment & Neighbourhood Services	1,812	-3,678	-1,866	-6.42%	-1,883	17
Children's, Education & Early Help Services/	3,418	-692	2,726	6.93%	2,673	53
Adults Care and Health Services inc. Public Health	2,535	-2,149	386	1.06%	386	0
Corporate Support Services	1,924	-2,102	-178	-1.33%	-177	-1
Directorate Sub total	**9,689**	-8,621	**1,068**	**0.90%**	**999**	**69**
Treasury		-1,250	-1,250		-1,250	0
Corporate Budgets		-950	-950		-950	0
Total	**9,689**	**-10,821**	**-1,132**	**-0.90%**	**-1,201**	**69**

3.2 **Environment & Neighbourhood Services**

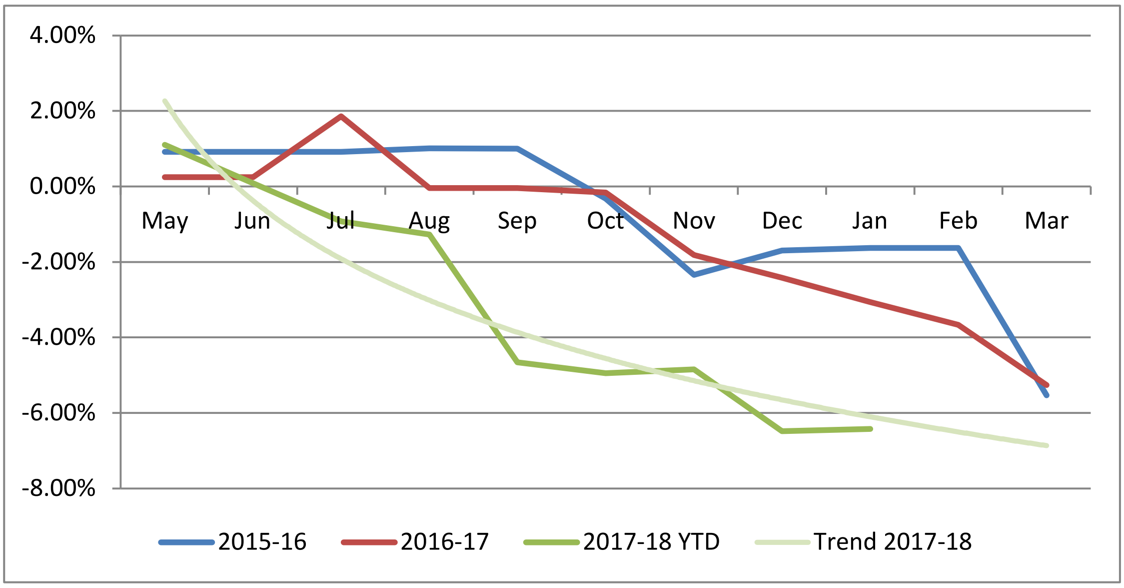
Based on the information currently available, the directorate is reporting a net positive variance against budget at year end of £1.9m. However, this is the consequence of a much more significant range of variances across a range of budgets including increased costs of £0.6m, reduced income of £0.5m and as yet unrealised savings of £0.7m, offset by an over-achievement of other income and under spend in homelessness.

The gross projected overspend, before mitigations; in DENS is £1.8m. £1.2m 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, relating to reduced income in comparison to budget across a range of service areas.

These overspends are compensated by £3.7m 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 £0.5m 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 and additional planning income of £0.1m

£1.6m 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



3.3 Children, Education & Early Help Services

The Directorate is currently reporting a net negative variance of £2.726m for the year which represents 6.9% of the annual budget. This is an adverse movement of £54k from the position reported in December.

The gross variance before remedial action is £3.418m which is largely attributable to the increased complexity of the looked after children (LAC) population amounting to £3.159m variance. The use of higher cost residential placements has increased significantly during 2017/18.

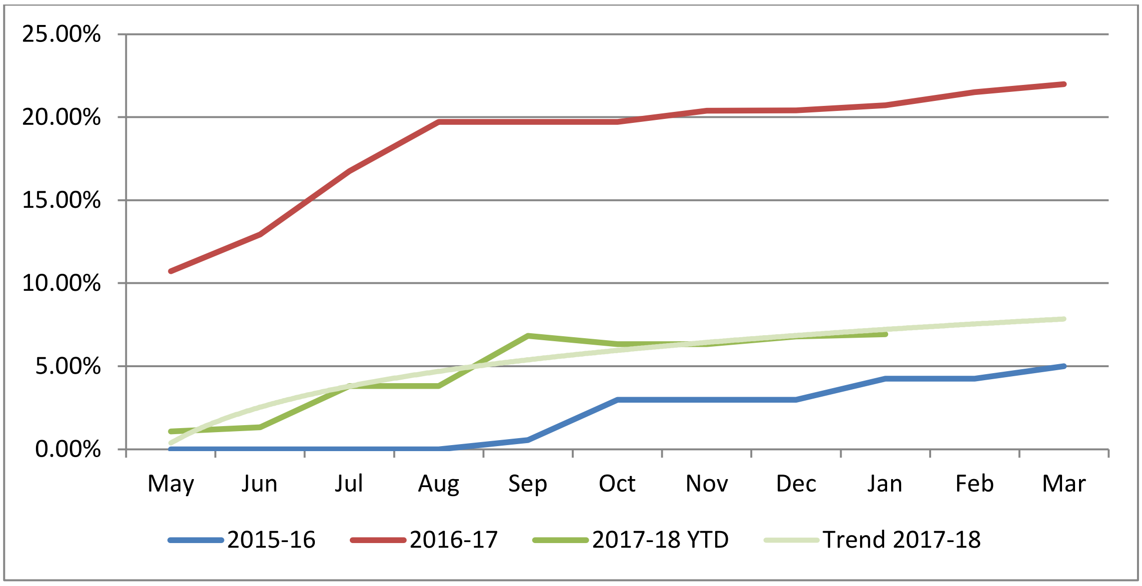
The projection for LAC reflects a further complex Residential placement, a new mother and baby placement and placement of a sibling group; this has resulted in the adverse movement. The mother and baby placement will be a cost of £3,358 per week, increasing to £3,850 per week when the father will be involved in the assessment. This was a court advised placement, which will be a maximum of 12 weeks at this high cost.

In addition to this negative variance, the Directorate is facing a £0.259m pressure for home to school transport for SEN pupils. This is due to the increase in pupils being placed at The Avenue, increasing the demand for transport for SEN pupils.

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 are on track to be achieved.

The paragraphs above describe the impact for the General Fund Services. The Directorate is also currently anticipating as in year deficit of £2.3m relating to the Dedicated Schools Grant (DSG). This will increase the deficit of the DSG to £3.7m 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 is in line with the overspend forecast in December.

In terms of the overall position, the gross overspend before remedial action is £2.535m, after taking account of savings still to be delivered from the original programme of £0.040m. 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 £1.250m and on Mental Health £0.525m.

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 12 additional packages in Learning Disabilities and 49 additional packages in Mental Health in comparison to budget assumptions at the start of the year. The forecast includes a contingency for transition and sleep in costs of £0.250m still to come through before the end of the year.

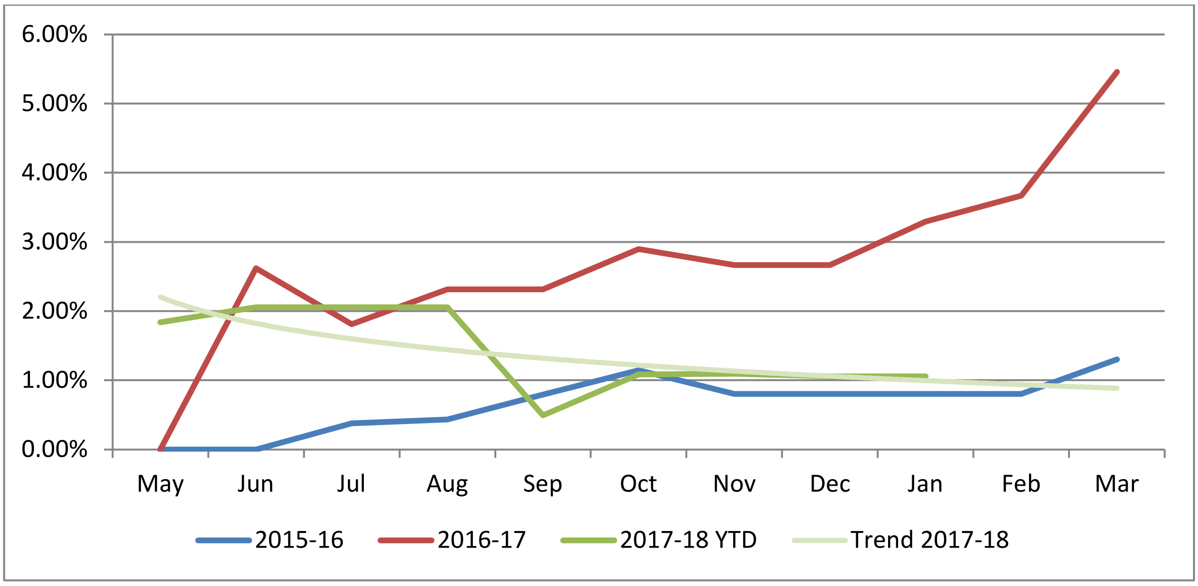
The adverse variance on Mental Health Services is due mainly to additional client costs in residential and nursing placements, though there is also an overspend on Community and other services.

The original DACHS savings programme for 2017-18, targeted savings in total of £4.067m. The forecast as presented assumes savings delivered will be £3.834m, representing a shortfall of £0.233m, which is 94% achievement of the original programme.

The Directorate has also identified £2.149m of positive variances and remedial action to reduce the gross overspend. This comprises £0.682m of underspends on budgets which are to be maintained until year end, specific remedial actions of £0.985m and new in-year savings of £0.482m. 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 is capitalising costs of implementing new computer systems and software.

In year savings totalling £0.482m, 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.

A ‘sense check’ has been undertaken as part of the January monitoring to cross check the care cost and income forecast from the Mosaic system to the actuals on the Fusion systems. The review has identified some potential additional cost pressure on Older People and Physical Disabilities, though offset by a potential reduction in cost pressures on Learning Disabilities and Mental Health. This will be analysed further between now and year end, though is expected to be cost neutral. The information will be used to inform budget setting for 2018-19. The ‘sense check’ has also identified an issue with NHS income, where there is a significant backlog of NHS invoicing, caused partly by changes in the way in which NHS required to be invoiced for Funded Nursing Care. The impact of the delay poses some financial risk, which could affect the income accrued for 2016-17 and NHS income assumptions on income for 2017-18. This is still under investigation and there is some risk, though the assumption for this forecast, is that income is in line with the December forecast.



3.5 Corporate Support Services

The Directorate is currently reporting a £178K underspend for the end of January which is a £1K change on last month. Within this there are several positive and negative changes across services which are detailed below.

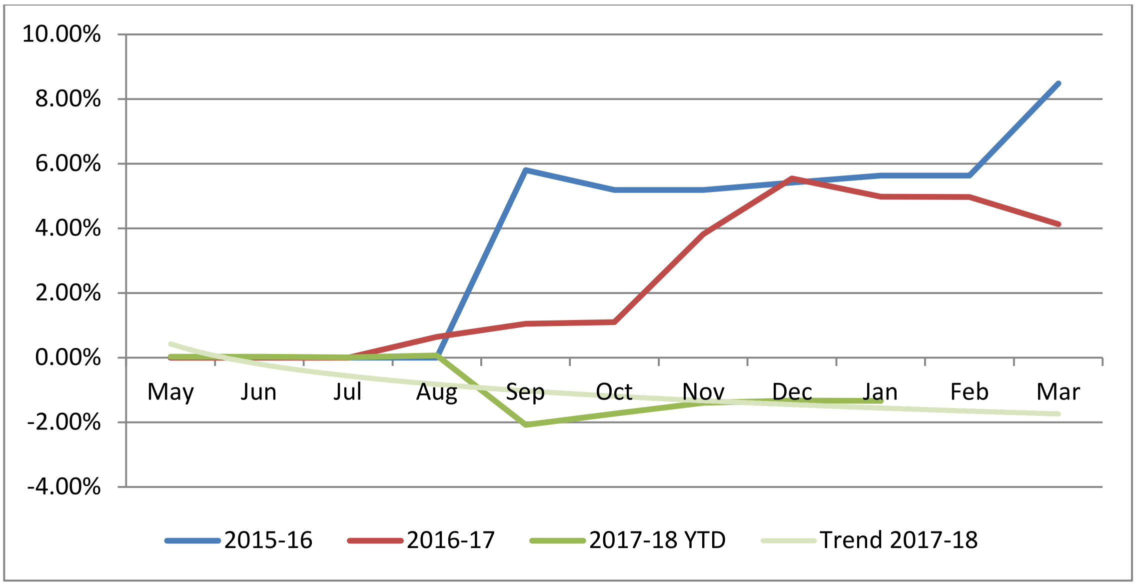
The most significant variance continues to be within the Childcare Lawyers service; this is a Berkshire wide joint arrangement operated by Reading Borough Council. Increased caseloads and duration of cases due to their complexity means the team is employing interims and agency staff over and above establishment 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 underspend by £10K.

The Finance & Accountancy Team is continuing to make progress towards the new structure which is expected to be in place by April 2018, although some posts will need to be recruited externally and may take longer to fill. A new Chief Accountant started at the beginning of January to provide technical accounting leadership and the new Head of Finance starts at the beginning of March. Recruitment costs for the new structure are estimated to be £32K.

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 £415K. 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 digitisation saving that is currently held within the Corporate budget is being shown as a pressure of £154K whilst more detailed work is ongoing to identify how this saving will be achieved. In order to deliver this saving the Corporate Management Team have recently agreed to give targets to each directorate to work towards digitisation and some savings around reduced printing and postage have been identified for 2018-19.

The overspends in the Directorate are mitigated by vacancies being held in the Policy and Voluntary Sector Team, Learning and Workforce Development Team and Customer Services (£153K). There is also a non-recurrent saving (£180K) on the elections budget for 2017/18 as it is a fallow year. In-year savings have been made on the ICT budget by deferring some projects to 2018-19 and also due to reduced numbers of assets (£329K). Additionally contingencies in the Learning and Workforce Development (£100K) and Housing Benefit Subsidy (£47K) have been released in-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 £1.1m. 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 £1.1m 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 January £50.689m of the c.£79m 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.)

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 HRA property at 10 Sun Street was sold at auction - £220k 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.

7.3

	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	£0.4m	£8.6m	£0.0m
Expected shortly	£0.2m	£0.0m	£0.2m	£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 £300k. This includes £200k 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 £350k 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 31/01/2018	Projected Outturn
	£'000	£'000	£'000
HRA-Major Repairs	7,248	3,653	6,090
HRA-Hexham Road Project	1,200	898	1,400
Disabled Facilities Grants (Local Authority Tenants)	390	268	501
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 January 2018 position is:

Council Tax	2017/18 £000	Previous Year's Arrears £000	Total £000
Target	85,514	1,490	87,004
Actual	85,571	1,607	87,178
Variance	**57 over**	**117 over**	**174 over**

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 January 2018, collection for the year to date was 92.00% compared to a target of 91.94%, and collection is slightly ahead 2016/17 (91.97% by end of January 2017).

10.3 Business Rates Income to the end of January 2018

Business Rates	2017/18 £000	2017/18 %
Target	114,756	89.50
Actual	114,772	89.51
Variance	**16 over**	**0.01**

The target for 2017/18 as a whole is 98.50%. By comparison, at the end of January 2017, 92.35% of rates had been collected.

11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 31 January 2018 stands at £4.289m in comparison to the 31 December 2017 figure of £4.773m and the 31st March figure of £4.280m. This shows a decrease of £0.484m since December, and we note that £2.679m of the balance as at 31 January 2018 is greater than 151 days old, compared to £2.807m at the end of December.

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.