From: John Simmonds, Deputy Leader & Cabinet Member for Finance & Procurement
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To: CABINET – 7 July 2014

Subject: **REVENUE & CAPITAL BUDGET MONITORING REPORT 2014-15**

Classification: **Unrestricted**

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1. Summary

1.1 This is the first budget monitoring report for 2014-15. This report reflects the position for each of the Directorates based on the major issues arising from the 2013-14 outturn, which is also on the agenda for this meeting. These are issues which were either not addressed in the 2014-15 budget build because they came to light after the 2014-15 budget was set or they are a continuation of pressures/savings that were addressed in the budget but only up to demand levels as at November/December time, when the 2014-15 budget was calculated.

1.2 The report provides initial forecasts for both the revenue and capital budgets.

1.3 Cabinet is asked to note these initial forecasts. In the light of further government funding reductions in the short to medium term, it is essential that a balanced position is achieved in 2014-15, as any residual pressures rolled forward into 2015-16 will only compound an already challenging 2015-16 budget position. This early forecast pressure of over £8m is very clearly a concern, and needs to be managed down to at least a balanced position. However, it is not unusual for the first forecast of the year to be on the pessimistic side, and the first quarters spend and activity information will provide a more solid foundation for future forecasts.

2. Recommendations:

Cabinet is asked to:

2.1 **Note** the initial forecast revenue budget monitoring position for 2014-15 and capital budget monitoring position for 2014-15 to 2016-17, and that the forecast pressure on the revenue budget needs to be eliminated as we progress through the year.

2.2 **Agree** the capital cash limit adjustments as requested in paragraphs 5.2 – 5.5.

3. Introduction:

3.1 This is the first budget monitoring report for 2014-15 and contains a high level strategic view of material pressures and savings for each Directorate. Overall the net projected revenue variance for the Council is a pressure of £8.393m. The pressures and savings highlighted in this report are largely informed by the actual activity outturn position at the end of the 2013-14 financial year, and also by each Directorates' initial assessment of the achievability of their 2014-15 savings. In total £81m of saving requirements were included in the approved budget for this year.

3.2 The forecasts show the vast majority of the £81m savings are on track to be delivered; this is a promising position at this stage of the year. The intention remains that where delivery proves to be unlikely, equivalent savings elsewhere within the relevant Directorate will be made as appropriate. As this is the first monitoring report of the year, equivalent saving plans have not yet been sufficiently developed. It is our expectation that once these alternative plans are finalised and agreed then the forecast pressure will reduce.

3.3 Details of issues faced within the revenue budget are provided in section 4 and those faced within the capital programme are provided in section 5.

4. <u>2014-15 REVENUE MONITORING POSITION</u>

4.1 A summary of the major forecast revenue pressures and savings, excluding schools, is shown in table 1 below:

Table 1: 2014-15 Revenue Pressures and Savings:

Directorate	£m	Pressure/Saving
Education & Young People's Services	+1.809	+£2.1m pressure on SEN Home to School Transport. Potential pressure from integration of adolescent services also highlighted in section 4.2. -£0.291m underspend on Supporting People (Youth)
Social Care, Health and Wellbeing – Specialist Children's Services (SCS)	+3.350	A combination of base pressures following the 2013-14 outturn (£1.211m) and current assessment of delayed delivery of 2014-15 savings (£2.139m).
Social Care, Health and Wellbeing – Adults	+2.042	+£2.541m pressure relates to increased demand for a number of Learning Disability services. This is partly offset by a -£0.409m underspend on Supporting People (Adults) and a small underspend of -£0.090m in the Mental Health service.
Growth, Environment and Transport	0.0	A number of potential unquantified pressures are highlighted below in section 4.4. These are partially offset by a -£1.000m saving from re-tendered waste contracts.
Strategic and Corporate Services	+0.792	+£0.327m Community Engagement, +£0.300m Property and +£0.165m Contact Centre
Financing Items	+0.400	+£0.400m Impact of low interest rates on our return on cash balances, partially offset by re-phasing of capital programme.
Total	**+8.393**	

4.2 <u>Education and Young People's Services Directorate:</u>

4.2.1 The initial forecast indicates a pressure of £2.1m which relates to Transport Services, which is partially offset by a forecast underspend of £0.291m on Supporting People (Youth).

4.2.2 Home to School Transport (SEN) – there is a forecast pressure on this budget of £2.1m as the number of children travelling is consistently higher than the budgeted number although there are a number of other factors which contribute to the overall cost of the provision of transport such as distance travelled and type of travel. This early forecast is based largely on the 2013-14 outturn and a more accurate forecast will not be available until the start of the 2014-15 academic year which will be reported to Cabinet in December 2014.

4.2.3 Early Help & Prevention – as part of the 2014-15 MTFP a saving of -£1.922m was allocated to the directorate for a reduction in staffing from the integration of adolescent services. The new Early Help and Prevention Division is in the early stages of the process of restructuring to achieve this and other staff savings but at this early stage of the financial year it looks likely that there will be a pressure as the full saving may not be realised in 2014-15. The Directorate is currently looking at other short term one-off measures that could be used to help balance the budget.

4.3 Social Care, Health and Wellbeing Directorate:

4.3.1 The initial forecast for Social Care, Health and Wellbeing Directorate indicates an overall pressure of £5.392m, as outlined in further detail below:

4.3.2 Specialist Children's Services:

4.3.2.1 The initial forecast for Specialist Children's Services (excluding Asylum Service) suggests that there is a current pressure of £3.350m. It is estimated that £2.139m of this pressure relates to allocated savings in the budget not taking place as originally planned, making the in-year savings less than budgeted. The remaining £1.211m relates to the underlying base pressure that has been carried forward from 2013-14, due to the outturn being higher than estimated at the time of setting the 2014-15 budget. Most of this pressure is in relation to placement costs. A management action plan is currently being worked on to look at additional in-year savings that can be made to help alleviate the overall pressure. It is anticipated that within the Quarter One monitoring report an update on this work can be included.

4.3.2.2 In relation to the Asylum service we are still in negotiations with the Home Office following the cessation of the Gateway Grant being made available to the Council. It is hoped that we have reached a settlement on the UASC's (Under 18's) which means that we are fully funded based on our current costs of supporting those young people who we are eligible to claim for. However no settlement has been agreed on the grant level for the Care Leavers, which still remains at the national figure of £150 per week which is not adequate to cover the direct costs of support. In addition to this the Gateway Grant was used to fund the infrastructure costs for the Care Leavers Service. At this present time, no additional offer has been made by the Home Office to increase the £150 per week. Kent is also working closely with officers from the Home Office in relation to those young people deemed as ineligible, for whom we still bear a significant cost to support them. At this point in the year we are not forecasting a pressure on this service on the basis that our negotiations with the Home Office will result in all costs being met, although this may well prove to be overly optimistic.

4.3.3 Adult Social Care:

4.3.3.1 The initial forecast for Adults Services suggests that there is likely to be a pressure of £2.042m. This is mainly in relation to Learning Disability which has an initial pressure of £2.541m highlighted, which is partially offset by a forecast underspend of £0.409m on Supporting People (Adults) and a small forecast underspend on Mental Health of £0.090m.

4.3.3.2 The pressure on Learning Disability relates mainly to residential and supported living accommodation, an increase in activity for respite to support carer's and an increase in the number of people receiving day services. Also, the forecast for new known service users, including those young people coming through transition into adult social care, has exceeded the budgeted amount estimated. This is largely because of the complexity of their needs as well as an increase in the needs of current individuals already known to KCC, in particular due to physical deterioration, dementia and long term conditions. This is compounded because the population of people with a learning disability are living longer and their carer's are elderly and no longer able to support the needs of their disabled children.

4.3.3.3 There is also evidence of an increase in the number of people who are now choosing to live away from the family setting and move to their own accommodation, with a support package to meet their social needs, in a number of inclusive settings in local communities. These greater expectations are not only from young people coming through transition, but also from individuals who would have traditionally continued to live at home with their parents.

4.3.3.4 In addition to this, we are seeing direct expenditure within the forecast, for individuals for whom we are jointly working with the National Health Service Executive (NHSE) and Clinical Commissioning Groups (CCG's) in order to meet the Winterbourne Joint Improvement Programme, with the aim to discharge service users currently in assessment and treatment centres or inappropriately placed in hospital services who are deemed ready for discharge or are no longer receiving treatment.

4.3.3.5 There also continues to be the ongoing and increasing pressure of the impact of Ordinary Residents in Kent, which continues to be requested and agreed because of the legal challenge from a number of other local authorities.

4.3.3.6 As Phase One of the Adults Transformation Programme is covering the whole of the Older Persons and Physical Disability Services, it is assumed at this initial stage of the year that those services budgets will be in a balanced position at the end of 2014-15. Reviews are ongoing with the Transformation partner Newton Europe, to ensure that all savings proposed are on track to be achieved. It is anticipated that the quarter one monitoring position will include a more detailed financial position against each of the services falling within the Transformation Programme.

4.4 Growth, Environment and Transport:

4.4.1 The initial forecast indicates potential unquantified pressures, as well as forecast underspends in the region of £1.0m, that had not been taken into account at the time the 2014-15 budget was approved at County Council in February 2014:

4.4.2 Following the tidal surge in December 2013, the floods over Christmas and the subsequent months of recovery, there is an as yet unquantified pressure in relation General Maintenance & Emergency Flood Response. These events impacted on the highways network (including potholes and drainage), public rights of way, waste tonnage, country parks and weed control/vegetation clearance. Severe Weather Grant Scheme funding of £8.6m was received late in 2013-14 for maintenance of the highways network (only) and very recently we have been notified that we will receive £6.3m from the "Pothole Fund".

4.4.3 Freedom Pass/Young Persons Travel Pass – the budget for this scheme was reduced considerably in 2014-15, due in part to an increased fee payable to acquire the pass, as well as an assumed reduction in cost as there would be a number of people who no longer thought the pass to be cost effective for their needs. The pass can also now be purchased in two instalments, with the scheme really only impacting from September e.g. the new academic year, and hence there are a number of variables that could impact on this budget. We are estimating that the take-up will not reduce as much as originally modelled between September and February, due to the revised instalment payment mechanism. At this stage, and until September/October, it is difficult to quantify what impact these variables may have as the first instalment of passes will not be acquired until July-August and in advance of the academic year.

4.4.4 The levels of waste tonnage in the first three quarters of 2013-14 suggested that the budget could be reduced for the coming year and the budget for 2014-15 was reduced to a capacity of 675,000 tonnes accordingly. Due to a variety of reasons the outturn for the year, with an unexpected upturn in quarter four, was 694,600 and therefore if this upward trend continues then a pressure on the 2014-15 budget could ensue. It is too early to predict the first quarter's tonnage to establish whether this trend is continuing, but if the outturn for 2014-15 matched that of 2013-14, then there could be a significant overspend at the year end, of anything up to £1.5m. At this stage, it is too difficult to predict the year's outturn but this will be revisited monthly and is part of the authority's performance indicators.

4.4.5 This potential pressure can be partially offset as a result of a number of the waste contracts being re-tendered in 2014 and it is likely that circa £1m of saving per annum can be achieved, in one instance turning a net cost for a contract to an income stream for the authority, by turning waste into an energy source. This, combined with other contracts being re-commissioned is likely to generate a two-year saving in the region of £1m per annum but whether this can be sustained longer term is not known at this stage due to assumptions around activity, inflation and other factors.

4.5 <u>Strategic and Corporate Services:</u>

4.5.1 The Directorate starts the year with a number of pressures to manage:

4.5.2 Contact Centre +£0.165m: At the end of the last financial year the Contact Centre had a deferred savings target of £0.573m. In the current year, there has been an increase in the number and duration of calls to the Contact Centre, resulting in a temporary need to increase resources, leading to a pressure of +£0.165m. A full management review is currently underway covering the operational framework and end to end processes.

4.5.3 Community Engagement +£0.327m: Prior to the organisational realignment in April 2014, under the previous Directorate arrangements a budget reduction of £0.327m took place in the Community Engagement team, leaving the current level of resources in the team, under-funded. A review of functions and roles of staff within the Community Engagement teams is currently being undertaken with particular emphasis on how each role meets the needs of the organisation moving forward. Extensive consultation with all groups likely to be impacted has delayed the delivery of this savings target until later in the year, creating an in-year pressure.

4.5.4 Property Group +£0.300m: Property Group budget for 2014-15 has £0.300m savings within it, which depend on service changes and reviews to take place in other parts of the Authority in order to enable the overall property portfolio to reduce. The service reviews are outside the control of Property Group although the savings will accrue here.

4.6 Financing Items budgets:

4.6.1 The continued low interest rate on savings and investments, partially offset by the re-phasing of last year's capital programme, means that we are forecasting a pressure of £0.400m at this stage. All other budget lines within Financing Items are forecast to budget, although this may prove optimistic in relation to the financial return from Commercial Services. The outcomes of an internal review of the Commercial Services businesses will inform a more accurate forecast for the year, at the end of the first quarter, but early indications are that we could see a shortfall compared to target in excess of £1m.

5. 2014-15 CAPITAL MONITORING POSITION

5.1 The three year capital programme (2014-15 to 2016-17) has an approved budget of £537.256m (excluding schools and PFI). The forecast outturn against this budget is £596.773m giving a variance of +£59.517m. £51.825m of this is due to rephasing. The outturn report has a total of £53.337m requested roll forwards, however £1.512m of these were against future anticipated overspends on the old Enterprise & Environment Directorate, which are not yet forecast in this exception report. If the roll forwards are agreed, once the cash limits have been updated, the revised variance will become +£7.692m. Variances of over £0.100m are detailed below:

5.2 **Controcc & Early Help Module (EMH) – Social Care, Health & Wellbeing – Specialist Children's Services:** +£2.429m real variance due to the addition of two systems projects. These are to be funded by a £1m underspend in 2013-14 on transforming short breaks (TSB3), and an underspend on Adults. A cash limit adjustment is requested.

5.3 **Older Persons Strategy – Social Care, Health & Wellbeing – Adults:** -£1.429m real variance to fund the Controcc and EHM in Specialist Children's Services above. A cash limit adjustment is requested.

5.4 **Highway Major Enhancement – Growth, Environment & Transport:** +£2.503m real variance. This reflects the remainder of the additional capital Severe Weather funding which was awarded in the last financial year to be spent by the end of April 2014. A cash limit adjustment is requested.

5.5 **Integrated Transport Schemes – Growth, Environment & Transport:** +£0.550m real variance. This relates to additional S106 contributions for the improvements at West Malling station. A cash limit adjustment is requested.

5.6 **New Ways of Working – Strategic & Corporate Services:** +£3.665m re-phasing. This variance relates to the timing of income streams in relation to the transfer of Gibson Drive between Liberty and KCC, which is not expected until later years.

5.7 The £7.7m forecast variance on the capital programme will be resolved by approval of the cash limit adjustments requested above, which as detailed, are to be funded by £2.503m severe weather funding, £1m underspend to be rolled forward from 2013-14 and £0.550m additional S106 contributions. The remaining £3.6m, as detailed in paragraph 5.6 above, is due to a phasing issue of income streams between Liberty and KCC in relation to the transfer of Gibson Drive, which is not expected until future years.

6. RECOMMENDATIONS

Cabinet is asked to:

6.1 **Note** the initial forecast revenue and capital budget monitoring position for 2014-15, and that the revenue forecast pressure needs to be eliminated by year end.

6.2 **Agree** the capital cash limit adjustments as requested in paragraphs 5.2 – 5.5 above.

7. BACKGROUND DOCUMENTS

2013-14 outturn report which is also on the agenda for this meeting.

8. CONTACT DETAILS

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