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Corporate Directors

To: CABINET – 6 July 2015

Subject: **REVENUE & CAPITAL BUDGET MONITORING REPORT 2015-16**

Classification: Unrestricted

1. **Summary**

- 1.1 This is the first budget monitoring report for 2015-16. This report reflects the position for each of the Directorates based on the major issues arising from the 2014-15 outturn, which is also on the agenda for this meeting. These are issues which were either not addressed in the 2015-16 budget build because they came to light after the 2015-16 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 2015-16 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 2015-16, as any residual pressures rolled forward into 2016-17 will only compound an already challenging 2016-17 budget position. This early forecast revenue pressure of over £11m 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. For comparison, the initial forecast for 2014-15 was a forecast pressure of £8.393m and we ended the year with an underspend of £10.909m; and the last time we had an initial forecast pressure of this magnitude was in 2008-09, where we started the year with a forecast pressure of £11.8m and ended the financial year with an underspend of £7.5m. That's not to say that such a significant turnaround can be repeated again this year, especially as savings become harder to make as each year passes on the basis that the easier savings options have already been taken. The first quarter's spend and activity information to be reported to Cabinet in September 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 2015-16 and capital budget monitoring position for 2015-16 to 2017-18, 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 – 5.6.

3. Introduction:

- 3.1 This is the first budget monitoring report for 2015-16 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 £11.683m. The pressures and savings highlighted in this report are largely informed by the actual activity outturn position at the end of the 2014-15 financial year, and also by each Directorates' initial assessment of the achievability of their 2015-16 savings. In total £83m of saving requirements were included in the approved budget for this year.
- 3.2 The forecasts show the vast majority of the £83m 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. Should alternative offsetting options not be identified within a directorate, then the Corporate Management Team will need to consider how this will be managed on an Authority-wide basis, as we must achieve a balanced position overall, we cannot afford to enter 2016-17 with an underlying problem.
- 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. 2015-16 REVENUE MONITORING POSITION

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

Table 1: 2015-16 Revenue Pressures and Savings:

Directorate	£m	Pressure/Saving
Education & Young People's Services	0	There are a number of offsetting pressures and savings which are detailed in section 4.2 below, but an overall breakeven position is currently anticipated.
Social Care, Health and Wellbeing – Specialist Children's Services (SCS)	2.900	Pressure on the Asylum budget based on the latest offer from the Home Office.
Social Care, Health and Wellbeing – Adults	7.019	Net effect of continuation of increased activity and expenditure experienced in the final quarter of 2014-15 on residential, nursing and homecare services for older people, offset by further delivery of phase 1 transformation savings, additional funding provided in the budget and use of one-off monies +£3.005m. Pressure resulting from revised phasing of anticipated delivery of phase 2 transformation savings +£3.95m. Continuation of pressure on Mental Health budgets experienced in 2014-15 +£0.547m. Offset by underspending against Supporting People (Adults) - £0.177m, Safeguarding -£0.164m, Learning Disability & other support services -£0.142m.

Directorate	£m	Pressure/Saving
Social Care, Health and Wellbeing – Public Health	0	Although a breakeven position is reported, the Government has announced that £200m of in year savings from the Department of Health are to come from public health budgets devolved to local authorities. We anticipate our share to be in the region of £4m, but we do not expect to know any further details until late summer/early autumn. On this basis, the service is considering options for dealing with an in-year 2015-16 budget reduction of this level.
Growth, Environment and Transport	0.594	A continuation of the pressure experienced in 2014-15 on the Concessionary Fares budget due to high usage. A continuation of the pressure experienced in 2014-15 on waste volumes is offset by underspends within the operation of waste facilities as a result of the new waste contracts and lower than budgeted prices.
Strategic and Corporate Services	2.520	We are awaiting the KPMG report in order to be able to allocate the £2m procurement savings target to services, which is currently held centrally within Finance & Procurement. Continuation of increased number and duration of calls experienced in the Contact Centre during 2014-15 +£0.4m. The restructure of the directorate is resulting in a delay in delivering the Customer Relationships saving +£0.27m. Partially offset by holding of vacancies in Communications & Consultation -£0.15m. <i>Further management action is being planned to reduce these residual pressures.</i>
Financing Items	-1.350	This relates to the announcement since the budget was set of additional Government funding relating to the reimbursement to local authorities of the impact of tax changes incurred under the business rates retention scheme associated with autumn statement measures in 2012, 2013 & 2014.
Total	11.683	

4.2 Education and Young People's Services Directorate:

- 4.2.1 The initial forecast indicates a balanced budget position but there are a number of forecast pressures offset by forecast savings.
- 4.2.2 Home to School Transport – there is a forecast pressure on the SEN transport budget of £0.400m, 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 pressure reflects the difference between the 2014-15 outturn position, including SEN Home to College transport and the 2015-16 approved budget. There is also an offsetting forecast saving on mainstream transport of -£0.400m, as the number of children travelling is anticipated to be lower than the budgeted number.

- 4.2.3 Early Years and Childcare – the directorate is responsible for 3 nursery provisions which are now part of the Early Years Unit. The nurseries have been given a challenging income target and initial forecasts suggest a shortfall of £0.259m, although a significant amount of work is being undertaken to reduce this pressure.
- 4.2.4 Community Learning & Skills – there is a forecast pressure on this service of £0.635m which is mainly due to costs associated with the service redesign and a reduction in contract income with no corresponding reduction in costs. The unit is also exploring ways to fund the additional costs of total contribution pay, which are also included within the current forecast pressure.
- 4.2.5 Teachers & Education Staff Pensions costs – the 2014-15 year finished with a significant underspend on this budget and with the annual capitalisation costs for 2015-16 forecast to be lower than the previous year, an underspend of £0.681m is forecast.
- 4.2.6 Directorate Management and Support – there was an underspend of over £400k on this budget in 2014-15. A savings target of £200k was applied as part of the 2015-18 MTFP process, but as costs are expected to be consistent with last year, an underspend of £0.213 is forecast.

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 £9.919m, 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 the service will break-even. This assumes that the Specialist Children's Services Transformation Programme will deliver anticipated savings. This programme commenced in 2014-15 and work is ongoing with the Transformation partner Newton Europe to ensure that all savings proposed are on track to be achieved. At this initial stage of the year, it is assumed that the budgets of the affected services will be in a balanced position at the end of 2015-16. The quarter one monitoring position will include a more detailed financial position against each of the services falling within Specialist Children's Services.

4.3.2.2 In relation to the Asylum service, we are still in negotiations with the Home Office, although the forecast position included in this report is based on the latest offer received. Under this current offer, it is anticipated that there will be a shortfall on the UASC's (Under 18's) creating a pressure of £0.2m. A more significant overspend of £2.7m is anticipated for Care Leavers, as funding for this group still remains at the national figure of £150 per week (or nothing for those deemed ineligible), which is not adequate to cover the direct costs nor the infrastructure costs of support. 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.

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 £7.019m. This is mainly in relation to Older People and Physical Disability, which has an initial pressure of £6.955m. There is also a forecast pressure on Mental Health Services of £0.547m, which is partially offset by a combined underspend of -£0.177m on Supporting People (Adults) and -£0.164m on Safeguarding Service. The remaining balance of -£0.142m is due to the net effect of minor variances within Learning Disability and other support services. This position assumes that there will be no additional cost relating to any further demand pressures, including the effect of winter.
- 4.3.3.2 In the last quarter of 2014-15, there was an unanticipated increase in activity and expenditure especially in relation to residential, nursing and homecare services for older people, which led to an increase in the position on those services of £2.3m. The full year effect of this increased activity, along with the ongoing pressures experienced within Physical Disability is partially offset by the services continuing to deliver further savings through phase one of the transformation programme, £0.8m of additional funding allocated through the 2015-18 MTFP for domiciliary care and the use of one-off monies of £4.056m. The combined effect is an estimated in-year pressure of £3.005m.
- 4.3.3.3 The 2015-15 MTFP included a saving in 2015-16 of £4.4m through the delivery of phase 2 transformation programme. The design phase of this programme is not yet complete, however the latest indications suggest the savings programme will no longer be able to deliver this level of savings in 2015-16, leading to a shortfall of £3.95m, as savings are now expected to be delivered over a longer time period.
- 4.3.3.4 The pressure within Mental Health services experienced in 2014-15 is expected to continue at a similar level in 2015-16, with significant pressures in both residential care and supported living placements, partially offset by anticipated underspends within commissioned community support services and staffing, leading to a forecast pressure of £0.547m at this stage.
- 4.3.3.5 As mentioned in section 4.3.3.1 above, the following forecast underspends are helping to offset the overall pressures on Older People and Physical Disability services and Mental Health services: -£0.177m on Supporting People (Adults); -£0.164m on Safeguarding Service and -£0.142m within Learning Disability and other support services.
- 4.3.3.6 Negotiations with providers have not yet concluded in relation to the 2015-16 price uplifts, therefore it is currently assumed that the prices provision included in the 2015-18 MTFP will be fully utilised.
- 4.3.3.7 It is prudent at this stage to assume that the grant monies allocated to support the preparation for the April 2016 Care Act changes will all be required for additional assessments from October 2015 onwards.
- 4.3.3.8 The directorate is currently considering options to offset the £7.019m forecast pressure and details of this management action plan will be presented in the quarter 1 report to Cabinet in September.

4.3.4 Public Health:

- 4.3.4.1 Although a breakeven position is reported, as any under or overspending is transferred to the Public Health reserve at year end, the Government has announced that £200m of in year savings from the Department of Health are to come from public health budgets devolved to local authorities. We anticipate our share to be in the region of £4m, but we do not expect to know any further details until late summer/early autumn as the Government is first due to consult with local authorities to decide the best way of delivering these savings. On this basis, the service is considering options for dealing with an in-year 2015-16 budget reduction of this level, but it should be noted that a reduction of this size will require cuts to service levels. Further details will be provided in future monitoring reports as more information becomes available.

4.4 Growth, Environment and Transport:

- 4.4.1 The initial forecast indicates an overall pressure of £0.594m for the Directorate, which relates to Concessionary Fares.
- 4.4.2 A £0.594m pressure is forecast against the Concessionary Fares budget based on information previously received from our concessionary travel consultant, MCL Transport Services, together with assumptions around activity levels. Although reconciled activity information for the first quarter of 2015-16 will not be available until July; journey numbers, and therefore payments to bus operators, are expected to remain close to 2014-15 levels (dependent on weather patterns). A saving was included in the 2015-16 budget relating to a reduction in journey numbers, based on interim payments to bus operators at the half year stage of 2014-15, when the budget was set. However, final reconciliation of the activity data by MCL Transport Services for the first half of 2014-15 and continued higher than anticipated usage in the second half of 2014-15, resulted in a £0.5m pressure on this budget. A reasonably mild and dry start to 2015-16 have only added to the expectation that this saving is not deliverable, as demand continues to be high.
- 4.4.3 The levels of waste tonnage throughout much of 2014-15 remained above affordable levels, with final waste volumes of 711,700 tonnes, which was 36,700 tonnes above budget; this equated to an overspend of £2.972m. This was largely offset by savings and management action within the service, to leave an overall overspend of £0.543m. For 2015-16 the volume of waste is expected to remain at a level in excess of the budget even though the affordable tonnage was increased from 675,000 tonnes to 690,500 tonnes in the 2015-16 budget process. Initial estimates suggest a similar tonnage figure to 2014-15 of approximately 711,000 tonnes, causing a significant financial pressure of £1.2m to £1.3m as a result of the additional 19,500 tonnes. However, this forecast pressure is assumed to be fully offset by savings within the service, primarily from underspends within the operation of waste facilities as a result of the new waste contracts and lower than budgeted prices for In Vessel Composting and Allington Waste to Energy.

4.5 Strategic and Corporate Services:

- 4.5.1 The initial forecast for the Directorate indicates an overall pressure of +£2.520m as outlined in further detail below:
- 4.5.2 Contact Centre +£0.400m: There is an expectation that the underlying pressures highlighted throughout 2014-15 within the Contact Centre, relating to an increased number and duration of calls delaying the ability to fully deliver savings, will continue in 2015-16. However, management action identified so far includes a change to the telephony infrastructure which will increase functionality and promote efficiencies. Additionally, the Customer Service Design Programme is working with directorates to implement process changes which will help to reduce call volumes and length of calls, thus reducing the underlying pressure for 2015-16 to +£0.400m. Further management action is currently being planned and will reduce this residual pressure throughout the year.
- 4.5.3 Gateways & Customer Relationships +£0.270m: Delivery of the 2015-16 saving of £0.390m relating to Customer Relationships has been delayed pending the restructure of the division. However, mitigating action is already reducing this overall pressure, and the residual pressure will be addressed both through the restructure of the division and further management action.
- 4.5.4 Procurement +£2.0m: The MTFP showed that the detail of the procurement and commissioning saving was still to be confirmed. KPMG have completed two “deep dives” in to areas with the potential to deliver these savings and we are awaiting their report in order to be able to allocate this savings target to services, which is currently held centrally within Finance & Procurement. Until we have details of where this saving will be delivered, we are forecasting it as a pressure, although this should reduce significantly or be eliminated once we see the detailed plan from KPMG as to precisely how this will be delivered.
- 4.5.5 Communications & Consultation -£0.150m: A number of vacant posts are currently being held pending the restructure of the division.

4.6 Financing Items budgets:

- 4.6.1 We have recently received notification from Government of the amount of reimbursement relating to the impact of tax changes, incurred under the business rates retention scheme, that were announced in the Autumn Budget Statements of 2012, 2013 and 2014, such as the doubling of small business rate relief and implementing a 2% cap in the inflation increase for 2014-15 and 2015-16. This reimbursement is higher than our estimate of compensation included in the budget, by £1.350m.

5. 2015-16 CAPITAL MONITORING POSITION

- 5.1 The three year capital programme (2015-16 to 2017-18) has an approved budget of £675.700m (excluding schools and PFI). The forecast outturn against this budget is £723.864m giving a variance of +£48.164m. However, £53.914m of this is due to rephasing from 2014-15 for which roll forward approval has been sought in the 2014-15 outturn report. If the roll forwards are agreed and once the cash limits have been amended, the variance will become -£5.750m. Variances of over £0.100m are detailed below:
- 5.2 **Basic Need Programme – Education & Young People’s Services:** +£51.758m real variance (+£4.263m 2015-16, +£23.617m in 2016-17 and +£23.878m in 2017-18). The forecast has been amended to reflect the revised 2015-18 Basic Need allocations and a cash limit adjustment is requested to update the budget.
- 5.3 **Special Schools Programme - Education & Young People’s Services:** +£7.890m real variance in 2016-17 to be funded from additional Basic Need grant for additional pressures at five schools. A cash limit adjustment is requested to update the budget. There is also a rephasing of the 2015-16 budget by £11.802m to 2016-17 to reflect the impact on 2015-16 of delays at the planning, land acquisition and cost renegotiation stages on a number of complicated projects.
- 5.4 **Priority School Build Programme 1 & 2 - Education & Young People’s Services:** +£3.143m real variance (+£0.143m 2016-17 and +£3.000m 2017-18) to be met from additional Basic Need grant for works which are required but not funded by the EFA. A cash limit adjustment is requested to update the budget.
- 5.5 **M20 Junction 10a - Growth, Environment & Transport:** -£69.000m real variance (-£5.000m 2015-16, -£34.000m 2016-17 and -£30.000m 2017-18) as The Secretary of State and Highways England have now decided to advance their proposed programme and promote the full improvement. Consequently there is no longer a direct role for KCC in promoting an interim scheme. A cash limit adjustment has been requested in the 2014-15 outturn report.
- 5.6 **Community Sexual Health Services – Social Care, Health & Wellbeing – Public Health:** +£0.360m real variance (2015-16) due to the addition of this capital project which is to be funded from Public Health grant. A cash limit adjustment is requested to update the budget.

6. RECOMMENDATIONS

Cabinet is asked to:

- 6.1 **Note** the initial forecast revenue and capital budget monitoring position for 2015-16, 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 – 5.6 above.

7. BACKGROUND DOCUMENTS

2014-15 outturn report, which is also on the agenda for this meeting.

8. CONTACT DETAILS

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