From: John Simmonds, Deputy Leader & Cabinet Member for Finance & Procurement
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To: CABINET – 18 July 2016

Subject: **REVENUE & CAPITAL BUDGET MONITORING REPORT 2016-17**

Classification: Unrestricted

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1. Summary

1.1 This is the first budget monitoring report for 2016-17. This report reflects the position for each of the Directorates based on the major issues arising from the 2015-16 outturn presented to Cabinet on 27 June. These are issues which were either not addressed in the 2016-17 budget build because they came to light after the 2016-17 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 2016-17 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 2016-17, as any residual pressures rolled forward into 2017-18 will only compound an already extremely challenging 2017-18 budget position. This early forecast revenue pressure of £7.922m 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 2015-16 was a forecast pressure of £11.7m and we ended the year with a "net" underspend of £3.6m; which is also consistent with the position in 2014-15 where we started the year with a pressure of £8.4m and ended with a "net" underspend of £6.1m. That's not to say that such a significant turnaround can be repeated again this year, especially as the risk of non-delivery of savings increases each year due to the aggregated impact of year on year reductions.

1.4 Whilst it is clear that some of this turnaround in previous years will have been due to the delivery of management action, history suggests that we also have a tendency to be pessimistic with our forecasting, by declaring pressures early but holding back on declaring underspending until towards year end, just in case it's needed. We urge budget managers to be less guarded with their forecasting from the offset so that decisions can be made on a more robust footing. For example, we want to avoid imposing such things as a freeze on recruitment or moratoriums on spend if they are not absolutely necessary, so more "accurate" forecasting earlier in the year is in everyone's interests, to avoid these more radical actions if possible.

2. Recommendations:

Cabinet is asked to:

2.1 **Note** the initial forecast revenue budget monitoring position for 2016-17 and capital budget monitoring position for 2016-17 to 2018-19, and that the forecast pressure on the revenue budget needs to be eliminated as we progress through the year.

2.2 **Agree** that £0.110m of the uncommitted underspend from 2015-16, agreed by Cabinet in June to be transferred to reserves to support future years budgets, be used this financial year to fund a further weed spray to control weed growth on hard highway surfaces, which is necessary due to the favourable growing conditions caused by the very mild and wet winter.

2.3 **Agree** to ring-fence future highway winter service underspends resulting from a mild winter, of up to the cost of a second weed spray (currently £0.110m), in anticipation of higher than average weed growth in the following growing season. Such underspending to be reflected as a committed roll forward requirement into the following financial year.

3. Introduction:

3.1 This is the first budget monitoring report for 2016-17 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 £7.922m. The pressures and savings highlighted in this report are largely informed by the actual activity outturn position at the end of the 2015-16 financial year, and also by each Directorates' initial assessment of the achievability of their 2016-17 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, alternative 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 for recommendation to Cabinet, as we must achieve a balanced position overall. We cannot afford to enter 2017-18 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. 2016-17 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: 2016-17 Revenue Pressures and Savings:

Directorate	£m	Pressure/Saving
Education & Young People's Services	0	There are a number of pressures and savings which are detailed in section 4.2 below, totalling £0.412m but management action is expected to be delivered to offset this.

Directorate	£m	Pressure/Saving
Social Care, Health and Wellbeing – Specialist Children's Services (SCS)	4.581	The full year effect of increased activity and expenditure experienced in the last half of 2015-16 on residential (+£2.394m) and fostering (+£1.097m), together with some offsetting transformation savings. Pressure on the staffing budgets based on continuing difficulties in recruiting permanent staff, exacerbated by the higher activity requirements noted above (+£1.277m). Pressures on the adoption/permanency budget (principally special guardianship orders) based on latest activity and spend figures (+£1.058m). -£1.245m of forecast underspends for a number of other budget lines including Safeguarding (-£0.408m), Strategic Management & Directorate Support (-£0.382m) & Preventative Services budgets (-£0.297m).
Social Care, Health and Wellbeing – Specialist Children's Services (SCS) – Asylum	1.407	This pressure takes into consideration that Kent will continue to receive the same grant rates as 2015-16 for all eligible young people.
Social Care, Health and Wellbeing – Adults	1.422	Pressures within Learning Disability Services (+£0.712m) and Mental Health Services (+£1.363m), offset by underspends within Commissioning (-£0.259m) and other support services (-£0.321m), together with the net effect of variances within Older People & Physical Disability Services (-£0.073m)
Social Care, Health and Wellbeing – Public Health	0	A breakeven position is reported.
Growth, Environment and Transport	1.368	Risk surrounding delivery of the YPTP savings due to increased journey numbers and costs in the second half of 2015-16, after the 2016-17 budget was set +£0.54m. The commercial business rate pool saving is currently forecast to not be deliverable in the current year +£0.5m. Waste budget pressures of +£0.328m following latest procurement exercise and a continuation of the increased tipping away payments at Church Marshes experienced in 2015-16.
Strategic and Corporate Services	0.412	The Property saving related to the exiting of buildings through the Asset Utilisation programme, is reliant on decisions of the service directorates and Members. At present there is £0.412m of savings where the closure of buildings has yet to be identified.
Financing Items	-1.268	This largely relates to lower interest costs (-£0.372m) and further Government funding and retained business rates income that has become apparent since the budget was set (-£0.896m).
Total	**7.922**	

4.2 Education and Young People's Services Directorate:

4.2.1 The initial forecast indicates an overall pressure of £0.412m but management action is expected to reduce this to a balanced position. The current significant forecast variances are:

4.2.2 SEN Home to School Transport – there is a forecast pressure of £0.257m on the SEN transport budget. This includes a pressure of £0.464m on hired transport 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 forecast assumes that contract re-tendering, which will take place later in the financial year, will yield some savings. This pressure is partly offset by savings on cash allowances given to parents to arrange their child's transport to school and payments to Special Schools and Pupil Referral Units (PRUs) of -£0.207m.

4.2.3 Early Years and Childcare – the directorate is responsible for 3 nursery provisions which are part of the Early Years Unit. Each nursery has a challenging income target. They have recently been restructured to reduce reliance on agency staff and are planning a relaunch in September 2016 of the services in order to increase income. It is hoped that both of these measures will, in the long term, mean the nurseries can operate within their budget but a pressure of £0.1m is forecast for 2016-17.

4.2.4 Other School Services – there is a forecast pressure on this budget of £0.197m due to payments for employee tribunal cases for former school staff.

4.2.5 Education Psychology Service – this service continues to generate income for non-statutory psychology traded services in excess of the income targets set. The current forecast net underspend is -£0.142m.

4.2.6 Management action – the re-tendering of SEN transport contracts may reduce the forecast pressure shown above. The directorate is confident that it can achieve a balanced budget position by the end of the financial year and would initially look to cover any residual pressure by reviewing all items of discretionary non staffing spend.

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 £7.410m, 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 be overspent by £4.6m. This assumes that the Specialist Children's Services Transformation Programme will deliver a lower than budgeted level of savings. This programme commenced in 2014-15 and work is continuing to ensure that the savings proposed are on track to be achieved.

4.3.2.2 In the last half of 2015-16, there was an unanticipated increase in activity and expenditure especially in relation to residential, fostering and special guardianship orders. The full year effect of this increased activity, (combined with ongoing pressures particularly in residential unit cost), is costing less than it otherwise would have done prior to the changes made via the transformation programme to the way the service operates. It is anticipated that there will be underspends on Safeguarding, Preventative Services and Strategic Management & Directorate Support budgets based on current commitments.

4.3.2.3 Every Residential placement will be reviewed in order to ensure that it is the most appropriate and cost-effective way to meet the young person's needs in the near future, as well as being reviewed again on a six-monthly basis thereafter. In addition, checks are being performed to ensure that all income due from outside of Children's Services for those supported under joint arrangements with Health and Education Services is taken into account.

4.3.2.4 Part of the pressure on the fostering service is likely linked to the limited availability of placements, partly due to a ripple effect of Unaccompanied Asylum Seeking Children being placed in this form of care. It is planned that recruitment of foster carers is to be increased to combat this.

4.3.2.5 The pressure on Assessment and Related Staffing for 2015-16 is £1.277m. This is partly due to increased pressures arising from the higher overall volumes of activity noted above and also the increase in referrals, but predominately due to the use of agency staff where insufficient numbers of permanent salaried staff have been recruited (which is partly driven by the increased numbers of staff required to meet the higher levels of activity). In order for planned budget savings to be achieved, the number of agency staff needs to be reduced significantly and this is a key focus for the service, which has plans to recruit at least 47 newly qualified social workers in 2016-17.

4.3.2.6 The forecast currently assumes that savings to compensate for the removal of SCS one-off funding (for transitional arrangements and special operations) will not be fully delivered. This will be reviewed once more detailed plans have been worked up.

4.3.2.7 The directorate is currently considering options to offset the £4.581m forecast pressure and a management action plan will be agreed. When the 2016-17 budget was set, the assumption was that Looked After Children (LAC) numbers (excluding Asylum) would reduce in the second half of 2015-16 and would continue to reduce in 2016-17. LAC numbers have in fact increased marginally since the end of September 2015, from 1,435 to 1,438 as at the end of May, which is contributory factor in this current forecast position.

4.3.2.8 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 small underspend position on the UASC's (Under 18's) of -£0.013m. An overspend of £1.420m is anticipated for Care Leavers, as funding for this group still remains at the figure of £200 per week (or nothing for those deemed ineligible), which is not adequate to cover the costs of support. At this time, no additional offer has been made by the Home Office to increase the £200 per week. This forecast position assumes that funding for the first 25 Care Leavers will be provided for 2016-17 to the value of £0.26m. 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.

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 £1.422m. This is mainly due to pressures within Learning Disability Services (+£0.712m) and Mental Health Services (+£1.363m) which are partially offset by underspends within Commissioning of -£0.259m, other support services of -£0.321m, and the net effect of variances within Older People and Physical Disability (-£0.073m).

4.3.3.2 The significant pressures on Mental Health residential care and supported living services in 2015-16 are expected to continue at a similar level in 2016-17, partially offset by anticipated underspends within commissioned community support services, carers residential respite services and staffing, leading to a total forecast pressure of £1.363m within Mental Health Services at this stage.

4.3.3.3 The pressures on learning disability supported living and day care services in 2016-17 are expected to be higher than previously anticipated when we set the 2016-17 budget, this is partially offset by underspends on residential care, direct payments and staffing, resulting in a forecast pressure of £2.412m. This forecast also assumes £1.640m of MTFP savings will be achieved before the end of the financial year. Work is underway to develop a management action plan to address this forecast and initial estimates suggest this pressure could be reduced by approximately £1.7m, resulting in a total forecast pressure of £0.712m for Learning Disability Services.

4.3.3.4 The following forecast underspends are helping to offset the overall pressures on Learning Disability and Mental Health services: -£0.259m across Commissioning Staffing budgets; -£0.175m funding to cover the costs of the terms & conditions changes implemented in late 2015-16 and -£0.146m primarily due to lower than budgeted office support costs.

4.3.3.5 The net minor underspend on Older People and Physical Disability Services of -£0.073m comprises some significant offsetting variances including pressures on older people residential care, physical disability domiciliary care and underspends on older people nursing care and both older people and physical disability direct payments. This forecast assumes that funding is set aside for winter pressures. If there is no increased spend as a result of winter then this funding will be available to offset other pressures. The forecast for Older People and Physical Disability services assumes £3.8m of the MTFP savings will be achieved before the end of the financial year.

4.3.3.6 Price uplifts to reflect the impact of the national living wage and contractual commitments have been made, along with the implementation of the new guide prices for older people residential and nursing care contracts. Work is ongoing to address market sustainability across adult social care therefore it is currently assumed that the prices provision included in the 2016-19 MTFP will be fully utilised.

4.3.4 Public Health:

4.3.4.1 A breakeven position is currently reported, with no significant forecast variances to report.

4.4 <u>Growth, Environment and Transport:</u>

4.4.1 The initial forecast indicates an overall pressure of £1.368m for the Directorate relating to Young Persons Travel Pass, Economic Development and Waste.

4.4.2 A +£0.540m pressure is forecast against Young Persons Travel Pass. A saving of -£0.540m was built into the budget to reflect the reduced take-up and fewer journey numbers seen in 2015-16 at the time the budget was being set, however the increased journey numbers and cost in the third and fourth quarters has put this saving at risk. The Directorate is in regular communication with bus operators with a view to reducing costs and mitigating the pressure.

4.4.3 A +£0.500m pressure is also forecast against Regeneration and Economic Development Services relating to the Commercial Business Rate Pool saving in the Medium Term Financial Plan, which is at risk of being achieved. The saving was based on exploring options around how the business rate regeneration pot might be distributed in future and these have yet to be confirmed.

4.4.4 There is a forecast pressure on the Waste budgets of +£0.328m, comprising +£0.200m (part-year effect) within Recycling Contracts and Composting and +£0.128m within Payments to Waste Collection Authorities. The +£0.200m pressure relates to the dry recyclables contract which could not be extended and therefore an e-auction procurement process was undertaken and the tendered price is higher than the allocated budget. The +£0.128m pressure results primarily from a continuation of increased tipping away payments at the Church Marshes Waste Transfer Station in Swale, with the capital improvements to the site not yet complete. In addition, there are other smaller pressures within this budget line.

4.4.5 In addition, the combination of a mild winter and a damp spring and early summer has led to a level of weed growth on hard highway surfaces that is much greater than could be expected in a more typical year. The budget only provides for one weed spray per year. A second weed spray in the current year would limit potential trip hazards and reduce the potential for weed growth to survive the winter without frost damage and then grow rapidly in the early part of the following growing season. **Cabinet is asked to agree** to a second weed spray in September 2016 at a cost of £0.110m, to be funded from the uncommitted roll forward from 2015-16, held in reserves.

4.4.6 Whilst mild winters do inevitably lead to increased weed growth, they are also likely to result in some degree of underspend on the highways winter service (i.e. gritting and snow ploughing). **Cabinet is asked to agree** to ring-fence future highway winter service underspends resulting from a mild winter, of up to the cost of a second weed spray (currently £0.110m), in anticipation of higher than average weed growth in the following growing season. Such underspending to be reflected as a committed roll forward requirement into the following financial year.

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

4.5.1 Property Group manages the Corporate Landlord estate which is occupied by front line services and has a savings target attached to it relating to the exiting of some buildings through the Asset Utilisation programme. It is not within Property's control to exit these operational buildings as the services and Members must take those decisions reflecting the complex and challenging nature of this target. However, Property Group is working closely with service directorates and Members to identify potential buildings which could deliver the savings requirement. At present there is circa £0.412m of savings to be delivered from the closure of buildings, which are yet to be agreed.

4.5.2 Within ICT there are savings to be delivered from the procurement of User Access Devices and other third party contracts. Work is progressing well to identify specific contracts which will deliver these savings and it is anticipated that the risks will diminish once this work is completed.

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 recent Autumn Budget Statements. This reimbursement is higher than our estimate of compensation included in the budget. The Government has also recently confirmed our funding levels for Extended Rights to Free Travel and Inshore Fisheries Conservation, which are marginally higher than we had assumed at the time of setting the budget. In addition, our estimate of Education Services Grant, based on the latest projection of schools converting to academies this financial year, is higher than assumed when setting the budget. These amount to an additional £0.650m.

4.6.2 We have been notified by Swale Borough Council that we are due some additional retained business rates in relation to 2015-16 for a Renewable Energy scheme. This is marginally offset by a lower retained business rates levy from being in a business rates pool with Kent District Councils than assumed at the time of closing the 2015-16 accounts. As a result we are forecasting £0.246m of additional retained business rates income in 2016-17.

4.6.3 There is a forecast underspend of £0.372m on the net debt charges budget, mainly due to lower than budgeted interest costs, including a reduction in bank charges following the recent retendering for banking services and savings on brokerage fees, as we are not looking to take out any new borrowing this financial year.

5. 2016-17 CAPITAL MONITORING POSITION

5.1 The capital programme 2016-17 has an approved budget of £304.512m (excluding schools and PFI). This includes roll forwards and other cash limit changes which were agreed as part of the 2015-16 outturn report. There are no forecast variances to cash limit, however items to note are listed below:

5.2 **New Ways of Working – Strategic & Corporate Services:**

The New Ways of Working programme is currently forecasting an overspend based on the existing profile of spend per property. Discussions are underway to seek a solution to this. An update on this will be reported in the first quarter's monitoring.

5.3 **Highway Maintenance, Integrated Transport & Public Rights of Way (PROW) – Growth, Environment & Transport:**

The overall funding from Department for Transport has been realigned to best suit the service requirements as follows:

+£0.615m to Highway Maintenance
-£0.439m from Integrated Transport
<u>-£0.176m</u> from PROW
£0.000m

6. RECOMMENDATIONS

Cabinet is asked to:

6.1 **Note** the initial forecast revenue and capital budget monitoring position for 2016-17, and that the revenue forecast pressure needs to be eliminated by year end.

6.2 **Agree** that £0.110m of the uncommitted underspend from 2015-16, agreed by Cabinet in June to be transferred to reserves to support future years budgets, be used this financial year to fund a further weed spray to control weed growth on hard highway surfaces, which is necessary due to the favourable growing conditions caused by the very mild and wet winter.

6.3 **Agree** to ring-fence future highway winter service underspends resulting from a mild winter, of up to the cost of a second weed spray (currently £0.110m), in anticipation of higher than average weed growth in the following growing season. Such underspending to be reflected as a committed roll forward requirement into the following financial year.

7. BACKGROUND DOCUMENTS

2015-16 outturn report, which was presented to Cabinet on 27 June 2016.

8. CONTACT DETAILS

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