From: John Simmonds, Cabinet Member for Finance
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Corporate Directors

To: CABINET – 26 June 2017

Subject: **REVENUE & CAPITAL BUDGET MONITORING REPORT 2017-18**

Classification: Unrestricted

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1. Summary

1.1 This is the first budget monitoring report for 2017-18. This report reflects the position for each of the Directorates based on the major issues arising from the 2016-17 outturn, which is also on the agenda for this meeting. These are issues which were either not addressed in the 2017-18 budget build because they came to light after the 2017-18 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 2017-18 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 2017-18, as any residual pressures rolled forward into 2018-19 will only compound an already challenging 2018-19 budget position. This early forecast revenue 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. For comparison, the initial forecast for 2016-17 was a forecast pressure of £7.9m and we ended the year with a "net" underspend of £0.6m; which is also consistent with the position in 2015-16 where we started the year with a pressure of £11.7m and we ended the year with a "net' underspend of £3.6m. 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. Clearly, much depends on our negotiation with the Home Office, where we will be seeking full reimbursement of the costs of supporting unaccompanied asylum seekers and care leavers.

1.4 When we set the 2017/18 budget, we planned to increase our General Reserves by £3.9m, to reflect the growing risk environment the Council was facing when the budget was set in early February. However, since then, a number of risks have reduced:

- We successfully delivered an underspend (albeit a very modest one) from 2016-17, so the risk of carrying-forward an overspend from last year has now disappeared,
- The final quarter's activity for 2016-17 came in below expectation, meaning we have fewer risks in the current year's budget than might have been,
- The additional £26m social care monies announced in the Chancellor's Spring Budget has very much mitigated some of the demand and price risks that we were facing in 2017-18.

As a consequence of the above, it is the view of the Section 151 Officer (Corporate Director, Finance) that the additional £3.9m contribution to reserves budgeted for in 2017/18, is not now necessary. In light of this, it is proposed that £3m of this extra funding is earmarked for further pot-hole repairs across the county, with the remaining £0.9m being declared as an underspend in the current year, to partly offset the early reported pressures shown elsewhere in this report.

2. Recommendations:

Cabinet is asked to:

2.1 **Note** the initial forecast revenue budget monitoring position for 2017-18 and capital budget monitoring position for 2017-18 to 2019-20, and that the forecast pressure on the revenue budget needs to be eliminated as we progress through the year.

Approve the proposal to no longer make a contribution of £3.9m to reserves but to use £3m to fund further pot-hole repairs and the remaining £0.9m to be declared as an underspend in 2017-18 to offset the reported pressure.

3. Introduction:

3.1 This is the first budget monitoring report for 2017-18 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 £8.157m. The pressures and savings highlighted in this report are largely informed by the actual activity outturn position at the end of the 2016-17 financial year, and also by each Directorates' initial assessment of the achievability of their 2017-18 savings. In total £73m of saving requirements were included in the approved budget for this year.

3.2 The forecasts show the vast majority of the £73m 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 2018-19 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. 2017-18 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: 2017-18 Revenue Pressures and Savings:

Directorate	£m	Pressure/Saving
Children, Young People and Education – Specialist Children Services	0.300	Pressures on assessment and safeguarding services partially offset by anticipated underspend on looked after children services.
Children, Young People and Education – Specialist Children Services – Asylum Service	4.200	Pressures on the Asylum budget assuming the 2017-18 grant rates continue to be at the same levels as 2016-17.
Children, Young People and Education – Education and Young People	0	Overall a breakeven position is currently anticipated however the Dedicated School Grant is likely to have a deficit of up to £10m.
Adult Social Care and Health – Disabled Children Services	0	A breakeven position is reported.
Adult Social Care and Health – Adult Services	3.349	Pressure relates wholly to the slippage of some savings in the 2017-18 budget, mainly relating to transformation.
Adult Social care and Health – Public Health	0	A breakeven position is reported.
Growth, Environment and Transport	0	A breakeven position is reported.
Strategic and Corporate Services	0.442	Pressures relating to delays in the exiting of buildings through the Asset Utilisation programme.
Financing Items	-0.134	This relates to additional funding notified since the budget was set.
Total	**8.157**	

4.2 Children, Young People and Education Directorate:

4.2.1 The initial forecast for Children, Young People and Education Directorate indicates an overall pressure of £4.5m, as outlined in further detail below:

4.2.2 Specialist Children Services:

4.2.2.1 The initial forecast for Specialist Children Services suggests a pressure of approximately +£0.3m. This is formed from a number of compensating variances, the most significant being:

- +£0.8m pressures across assessment and safeguarding services: the service continues to have a number of vacant posts filled by agency workers with some additional supernumerary agency workers above establishment to cope with a post Ofsted rise in workload demand. This increased number of referrals has also led to a pressure on the Central Referral Unit.

- -£0.5m saving in looked after children services assuming activity will remain at current levels throughout the remainder of the year. At this time, the increased number of referrals is not expected to result in an increased number of looked after children.

4.2.3 Specialist Children Services – Asylum Seekers:

4.2.3.1 The current predicted pressure on the Asylum Service is £4.2m and is based on a number of assumptions. The 2017-18 Unaccompanied Asylum Seeker Children (UASC) and Care Leavers grant rates have not yet been confirmed by the Home Office, therefore we have assumed that for young people who arrived before the National Transfer Scheme (NTS) commenced in July 2016, that they will continue to be paid at the rates agreed for 2016-17.

4.2.3.2 This position therefore assumes that we will have a shortfall on eligible UASC's (aged under 18) of approximately +£0.9m, Care Leavers (aged 18+) of +£2.0m, and ineligible costs of +£0.3m, the remaining +£1m pressure relates to the hosting of the reception centre and duty process for the NTS.

4.2.3.3 The forecast pressure on the Asylum Service for 2017-18 is greater than 2016-17 due to the age of the children being supported. The UASC grant rate paid by the Home Office reduces once the child turns 16 years old therefore leading to an increasing pressure as the child gets older if the cost of support is not reduced, which is not always possible for the current UASC. Most of the current UASC (irrespective of age) are in higher cost placements due to the fact that they arrived before the age of 16, so had to be placed in fostering placements, which is where they have chosen to remain. In addition, fostering placements made from 2015 onwards were with independent fostering providers with the higher costs that this entails and attempts to move any individual who is settled in this placement is likely to result in legal challenge. The shortfall in the grant rate to support Care Leavers is not dissimilar to previous years, but the overall pressure is greater due to higher numbers of young people.

4.2.3.4 As we have no agreement on the funding of the hosting of the NTS and reception centre, we can only assume at this stage that we will receive the daily grant rate for those young people we are supporting for a few weeks leading up to their dispersal.

4.2.3.5 This overall position is not sustainable and meetings have taken place with the Home Office regarding Kent's financial position. We fully expect to achieve a positive outcome from these ongoing discussions, but until we have written agreement from the Home Office, we are forecasting this pressure.

4.2.4 Education and Young People:

4.2.4.1 The Education part of the Directorate is forecasting a balanced budget at this early stage of the financial year. Whilst there are some challenging income targets and savings to deliver, plans are in place to deliver the agreed targets. We will continue to monitor the progress against these plans and will provide regular updates to Cabinet.

4.2.4.2 Normally the Dedicated Schools Grant (DSG) position for this authority is not referred to in this report. However, as the DSG reserve ended the 2016-17 financial year in deficit for the first time, this is now an area of concern for the Council. The DSG reserve has always been in surplus but at the 31 March 2017 the reserve stood at £1.83m in deficit. The main reasons for this are in relation to higher pupil growth than expected, particularly in relation to pupils with Special Educational Needs which is also referred to as High Needs. The authority had agreed with the Schools' Funding Forum to retain a reserve of £5m for in-year growth. The level of growth experienced in 2016-17 exceeded this level of reserve, and this growth came from payments to mainstream schools and academies as well as Further Education Colleges (where we now have to meet costs for students in the age range of 19-25 but without any additional DSG funding from government).

4.2.4.3 The growth in High Needs pupil numbers is likely to continue into 2017-18, and this pressure, along with known commitments that the Council and Forum have already agreed to (such as the closure of Pent Valley school), means that the deficit is likely to rise and could exceed £10m before this year is out.

4.2.4.4 Clearly this is a major cause for concern and one that the Directorate is taking seriously. The Directorate has embarked on a fundamental review of its DSG High Needs budget with the aim of making amendments to the various processes so that in future the annual commitments cannot exceed the annual funding that the Council receives from the Department for Education. In addition the review is looking to establish a realistic repayment plan so that the reserve returns to a surplus as soon as is practically possible. This review will need to be agreed with the Schools' Funding Forum and will need to cover payments to all types of provision and once completed will invariably result in some very difficult decisions for both this Council and the Schools' Funding Forum. Alongside this review we will also need to review the use of DSG in other parts of the County Council given the need to meet statutory education functions such as High Needs. It is our intention to provide regular updates of this review to Cabinet via the monthly budget monitoring reporting process.

4.3 Adult Social Care and Health Directorate:

4.3.1 The initial forecast for Adult Social Care and Health Directorate indicates an overall pressure of £3.349m, as outlined in further detail below:

4.3.2 Disabled Children Services:

4.3.2.1 It is currently anticipated the Disabled Children Services will achieve a balanced budget position, with all savings expecting to be achieved.

4.3.3 Adult Social Care:

4.3.3.1 Adult Social Care is currently highlighting a pressure of £3.349m, this relates wholly to the slippage of some savings in the 2017-18 budget, mainly relating to transformation. It is anticipated that this pressure will reduce over the next few weeks as decisions can be implemented, and alternative savings can be found to offset any remaining slippage.

4.3.3.2 At this stage no variance is anticipated in the relation to demand, albeit more detailed forecasts will be collated next month.

4.3.3.3 Plans are currently being finalised for the use of the additional social care monies being made available through the Improved Better Care Fund, it is not however anticipated that these will have any impact on the reported variance.

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 a breakeven position for the Directorate. There is an overall £0.920m of MTFP pressures made up of smaller pressures on several services within the Directorate. Management action is expected to reduce this to a balanced position.

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

4.5.1 The initial forecast for the Directorate indicates an overall pressure of £0.442m as outlined in further detail below:

4.5.2 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. To ensure that links are made between potential Asset Utilisation proposals and the needs of our front line services, a cross-Directorate group has been established early in this financial year, chaired by a Corporate Director, to look at innovative ways of delivering this target, whilst ensuring those links are made.

4.5.3 At present, there is an in-year pressure of circa £0.442m of savings to be delivered from the closure of buildings, which are yet to be agreed. Work also needs to progress now on delivering the additional £0.650m of Asset Utilisation savings which become effective from 1st April 2018.

4.6 <u>Financing Items budgets:</u>

4.6.1 A £0.134m underspend is forecast reflecting additional funding notified since the budget was set, including additional Extended Rights to Free Travel grant and Retained Business Rates relief relating to Dover Enterprise Zone for 2015-16 and 2016-17.

5. <u>2017-18 CAPITAL MONITORING POSITION</u>

5.1 The capital programme 2017-18 has an approved budget of £261.303m (excluding schools and PFI). This does not yet include roll forwards reported as part of the 2016-17 outturn report. To date there are no known variances to report on.

6. RECOMMENDATIONS

Cabinet is asked to:

6.1 **Note** the initial forecast revenue and capital budget monitoring position for 2017-18, and that the revenue forecast pressure needs to be eliminated by year end.

6.2 **Approve** the proposal to no longer make a contribution of £3.9m to reserves but to use £3m to fund further pot-hole repairs and the remaining £0.9m to be declared as an underspend in 2017-18 to offset the reported pressure.

7. BACKGROUND DOCUMENTS

2016-17 outturn report, which is also on the agenda for this meeting.

8. CONTACT DETAILS

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