

Report

Cabinet



Part 1

Date: 15 November 2017

Subject **September Revenue Budget Monitor**

Purpose This report details the current forecast position on the Council's revenue budget and the risks and opportunities that present themselves within the September position.

Author Head of Finance

Ward All

Summary As at September 2017, the Council's revenue budget is forecasting an **overspend of £1,098k**, excluding the impact of the revenue contingency budget. Applying the unused revenue budget contingency (£1,373k) to offset the general overspend achieves an underspend of £275k.

The overspend of £1,098k is explained primarily by a small number of key budget areas:

- (1) There are significant overspends within 3 service areas of c£3.5m, excluding schools, (i) Children's social care – 'out of area placements' (ii) Adults social care – 'community care' and (iii) Education – 'special education placements', all areas linked to increasing need. These overspent in the previous year but have worsened significantly in the current year;
- (2) There is c£0.47m of undelivered / delayed savings, mainly within 'Place' services;
- (3) These overspends above have been partially offset by:
 - (a) c£1.1m of staffing underspends across services;
 - (b) non-service area savings of c£2m in respect of council tax rebates and council tax surplus.

Implementing longer term plans to stabilise and control the 3 major over-spending areas, whilst managing the budget risks in the shorter term, should now be the Council's priority. Continued funding reductions and delivery of new savings adds to this challenge.

Use of almost the entire Council's contingency budget to balance the budget is a significant concern, as it gives no room for manoeuvre and limited additional contingency for further unforeseen issues.

In addition to the above, school forecasts for 2017/18 currently predict an overspend of c£3m which will reduce the vast majority of school's individual reserves to zero as they will be used to 'fund' this overspend. Currently, 46 out of 55 schools are reporting 'in-year' deficits. The Chief Education Officer has agreed licensed deficits for 7 schools and officers continue to work with these schools to develop deficit recovery plans, where appropriate.

The position is very finely balanced, very challenging and requires on-going diligent management.

Following the same pattern as 2016/17, the service area overspending is significant and if not controlled, could have a financial resilience impact on the Council's overall finances in the future.

Proposal

Cabinet is asked to:

- Note the overall budget forecast position and key budget challenges;
- Note the use of the Council's contingency budget to balance the current level of overspending, previously approved by Cabinet, which will be assessed each month on an on-going basis;
- Note that a targeted non-essential spending restriction is already in place as reported previously and re-affirm the need for robust financial management and maximise savings on the non-essential spend restriction, wherever possible;
- Note the level of undelivered savings within each directorate and the risks associated with this;
- Note the forecast movements in reserves (appendix 3) and approve the additional Invest to Save reserve bids summarised in appendix 4;
- Note the balance in respect of the investment reserve (use of 16/17 underspend on a series of one-off projects / priorities) which has been assumed within current forecast.

Action by

Cabinet Members / HoF / DMT / CMT confirm plans to:

- Promote and ensure robust forecasting throughout all service areas and maximise savings from non-essential spending.

Timetable

On going

This report was prepared after consultation with:

Strategic Directors
Heads of Service
Budget Holders
Accountancy Staff

Signed

This report deals with 3 broad areas of Financial Management (1) the revenue budget position, including delivery of approved savings (2) use of reserves and (3) progress on spending the Cabinets one-off spending priorities from the 16/17 underspend.

This report is a high level summary, focused on the key issues and risks.

Other key information includes:

- (i) All budget/ service managers have 24/7 access to their budgets/actuals/forecasts through the on-line 'budget management system';
- (ii) Individual 'budget dashboards' for each service are produced for HoS/Directors/Cabinet Members monthly and set out main budget variances and actions in place to manage;
- (iii) Budget risk areas have been identified and further, specific management information, setting out key data on the income/ expenditure drivers in those areas are produced monthly to help show and explain budget variances;
- (iv) As part of the new arrangements for scrutiny, the dashboards and risk based data is also shared in those forums.

(1) **THE REVENUE BUDGET POSITION**

Summary

1. The current 2017/18 forecast represents variances in the following key areas:

	£'000
Net overspending in service areas (exc. Schools)	2,684
Overspends in Schools	<u>3,000</u>
Service area overspends	5,684
Schools reserves transfer to cover school overspends	(3,000)
<i>Non Service Variances:</i>	
Savings on C Tax benefit rebates – lower claimant No's	(1,277)
Council Tax surplus saving – housing growth	(793)
Other (non-service) variances	<u>484</u>
Net Overspend	1,098

2. As at September 2017 the Councils revenue budget is projecting an overspend of £1,098k (August - £1,298k overspend). There are significant budget overspending in 3 key areas, partly mitigated by underspending on staffing budgets and non-service areas. The position has improved by £200k since last reported to Cabinet, mainly from reduced overspending in 'Place' services.
3. The Council's contingency budget is integral in ensuring a balanced budget at year end where overspending occurs, and alongside the non-service underspending mentioned above, use of almost all of the available contingency budget balances the budget in 2017/18. Cabinet have already approved use of this contingency to balance the overall budget and the current position still requires this. This will be monitored and updated on an on-going basis. It should also be noted that the service area overspending in both 2016/17 and 2017/18 (forecast) far outweighs the level of contingency budget that the Council has available and the current levels of underspending in non-service areas cannot be guaranteed as recurrent, at least at current levels.

4. As always, forecasts are subject to change and key areas of potential opportunities and risks in going forward include:

Opportunities

- Additional council tax income and therefore surplus could be achieved over and above current forecast. This will be updated in October when 6 months data is available;
- The non-essential spending restrictions should provide opportunities to reduce spend further, when applied rigorously. On-going forecasts will show progress.

Risks

- The key areas of children’s and adults social care are susceptible to change as client numbers change from current forecast assumptions, as are education special education placements. In particular, the current overspend assumes that a small number of placements can be returned back to provision in Newport, which can’t be guaranteed. These areas are showing particular challenges and stress this current year.

These will undoubtedly update forecasts over the coming months.

Reasons for budget Overspending

5. The following section highlights the key areas that contribute to the current overall Council position:
- (i) budget underspends on staff costs at c£1.1m;
 - (ii) budget overspends of c£3.5m in 3 key areas of risk; Children’s services – ‘out of area placements’, Adult’s services ‘community care budgets’ and Education – ‘out of area special education placements
 - (iii) budget overspends of c£470k due to non/delayed delivery of agreed budget savings.

These three account for the c£2.7m of net service area overspending, as shown in the summary above. More details on each are shown below:

(i) Staffing

6. Employee budgets make up over a third of the Councils gross budget. The table below illustrates that a £1,053k forecast saving is anticipated against the £54m overall Council staff costs budget.

OVERALL STAFFING	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Budget (£'000)	54,097	54,097	54,161	54,123	54,110	54,433	54,433	54,433	54,433	54,433	54,433	54,433
Forecast (£'000)	54,097	53,764	53,901	53,342	53,252	53,380	53,380	53,380	53,380	53,380	53,380	53,380
Variance (£'000)	0	(334)	(259)	(781)	(859)	(1,053)	(1,053)	(1,053)	(1,053)	(1,053)	(1,053)	(1,053)

A large proportion of this saving is in respect of late consequential funding from Welsh Government that has offset existing staff costs within the Social Services area and delaying recruitment wherever possible as part of the non-essential spending restrictions.

(ii) Budget overspends in 3 key areas

7. Three service/ budget areas are under significant pressure and account for £3,445k of the total forecast service area overspending. The table below shows the key areas and, as set out by HoS, what action is currently planned to take place to manage these risks as best as possible.

	2016/17 Outturn Variance Over/ (Under) spend	2017/18 Forecast Variance Over/ (Under) Spend	2017/18 Investment (Additional budget)	Worsening/ (Improvement) since 2016/17 (after investment)	Notes	Proposed Action
	£'000	£'000	£'000	£'000		
Children & Family Services						
Out of area residential placements	892	2,092	(400)	1,600	Budget can afford 16 placements based on average package costs whereas the service has made 22 placements currently, one of which is at a cost of £8k per week. This has the potential to increase should the number of placements not reduce towards the end of the year. In addition to the provision for 2 further placements mentioned in previous months there has been an increase of 1 further placement since September 2017.	1. Currently regional and national groups in place to address the placements position across Wales. There is recognition regionally and nationally that in terms of cost, availability and quality the current position is unsustainable. 2. The overspend continues to be under constant scrutiny and all staff are fully cognisant with the risks. The service area continue to interrogate this area and apply the level of rigour required at every stage leading to such placements.
Adult & Community Services						
Community Care	1,100	255	(1,044)	199	£862k is the gross overspend in this area based on current client numbers. This has been reduced by a one off benefit of £608k WG workforce grant bringing the net overspend down to £255k.	1. The Equality, Commissioning and Outcomes (ECO) process has been strengthened and covers all service areas including the hospital. 2. A number of actions have been agreed to address the Continuing Health Care (CHC) funding reduction and some fast track cases have been successfully challenged and learning disability cases are being formally placed in dispute with by NCC. this has included the implementation of stricter CHC guidance and support available for staff.
Education						
Special Educational Needs (SEN)	917	1,098	0	181	Although the number of Out of County (OOC) placements have reduced since 2017/18 the type of pupils requiring OOC placements are for 'high end' needs which are very costly.	1. New approaches to monitoring pupils likely to require OOC placements are in place and are supporting quality assurance processes; 2. A Service Area 'Strategic Board for Inclusion Provision' has met. Aims and objectives of the group have been set (which are focussed on extending local SEN provision, thus saving high end costs of OOC places in the future); 3. This month there will be an intense focus on developing further improvements relating to Transport budget management; 4. There is a new OOC reduction plan to mitigate the extent of the OOC overspend in 2018/19. Additional resources have been requested from the Business Improvement & Performance Team (BIPT) to drive this work forward.
SERVICE AREA SUBTOTAL	2,909	3,445	(1,444)	1,980		

As the table shows, the overspending has increased from 16/17 levels in the service areas (from £2,909 to £3,445k), even though additional budgets of £1,444k were added to them for 2017/18 – therefore a worsening position of £1,980k.

(iii) Delivery of Medium Term Financial Plan (MTFP) Savings:

8. The following table shows the forecast delivery of savings across directorates. In the main this shows good performance on achievement of these savings (to date, forecasted that 97% of the £5,725k savings target for 2017/18 will be achieved). There remain a couple of projects that are not expected to achieve the full extent of the proposed saving and currently no targeted plan exists to mitigate.
9. The main areas of undelivered projects currently sit within the Place portfolio, specifically:
- RIH – Property services profit anticipated from the Norse joint venture agreement - £106k;
 - Streetscene - Bus routes; removal of subsidy to support specific evening and Sunday bus services - £69k;

2017/18 Change Programme Financial Improvement Programme (FIP) by Directorate

By Portfolio	People	Place	Corporate	Non Service	Total 17/18
2017/18 MTRP Target (£) Total	£2,979,000	£839,000	£734,000	£1,173,000	£5,725,000
Total Savings Realised by Year End 2017/18	£3,025,929	£635,000	£734,000	£1,173,000	£5,567,929
Variation to MTRP Target	£46,929	-£204,000	£0	£0	-£157,071
Variation % to MTRP Target	2%	-24%	0%	0%	-3%

10. In addition, there remain undelivered savings in respect of 2016/17 projects.

2016/17 Unachieved Savings - Streetscene

2016/17 MTRP Target (£) Total	£855,680
Total Savings Realised by Year End 2016/17	£542,634
Variation to MTRP Target	-£313,046
Variation % to MTRP Target	-37%

11. The £313k shortfall against a target of £856k relates to the following projects:

- Streetscene service review - £227k. This is now deemed unachievable in the way it was original envisaged. The HoS plans to start up a new project once mitigation is identified and to achieve the original target. A report is to be written by the HoS to outline mitigation measures in the meantime;
- Street cleansing service review - £59k. A targeted non-essential spending freeze has helped to mitigate this in the short term;
- Waste (Special Collections) - £27k. Options to mitigate are currently being discussed.

(iv) Non-Service Underspending:

12. Service area overspending has been temporarily mitigated by one off non-service area savings of c£2m in respect of council tax rebates and council tax surplus.

	2016/17 Outturn Variance Over/ (Under) spend	2017/18 Forecast Variance Over/ (Under) Spend	2017/18 Investment (Additional budget)	Worsening/ (Improvement) since 2016/17 (after investment)
	£'000	£'000	£'000	£'000
Non Service				
Savings on C Tax benefit rebates - lower number of claimants	(1,063)	(1,277)	400	(614)
C Tax surplus - housing growth	(1,539)	(793)	0	746
NON-SERVICE SUBTOTAL	(2,602)	(2,070)	400	132

These budget areas will continue to be closely monitored in light of new dwellings, claimants and collection rates. Council tax income will be updated again in October when 6 months data is available.

Schools

13. The current forecast for schools shows significant overspending based on schools individual budgets agreed by their Governing bodies for 2017/18. A summary of schools funding and forecast reserve movements has been included below:

School	School Balance as at 31/3/2017	Estimated in-year Surplus / -Deficit 2017/18	Estimated School Balance as at 31/3/18
Total Secondary Schools	1,682,623	-1,788,653	-106,030
Total Primary Schools	3,153,021	-1,246,361	1,906,660
Total Nursery Schools	17,003	-20,824	-3,821
Total Special Schools	-21,337	55,838	34,501
Total All Schools	4,831,310	-3,000,000	1,831,310

- It should be noted that the budgeted in-year movement does not recognise any additional income (grant & other compensation) that schools may receive during the financial year. There is currently no basis for anticipating this for 2017/18 though Newport Schools have received c£1m in each of the last 2 years;
- The Chief Education Officer has agreed licensed deficits for 7 schools and officers continue to work with these schools to develop deficit recovery plans, where appropriate.

(2) USE OF RESERVES

14. Appendix 3 illustrates the planned movements in reserves throughout the year. Cabinet should note the opening balance as at 31st March 2017, forecasted planned transfers in/ (out) of reserves in 2017/18 and the forecast balance as at 31st March 2018. Current projections suggest

that 21% (nearly £23m) of the Councils reserve will be used by the end of the financial year – in line with either the original budget set, expenditure agreed in year funded from reserves (mainly capital spend; agreed as part of the on-going monitoring of the capital programme) or known events and issues flagged up in this report e.g. schools overspending. The following points are important to note:

- apart from the general reserves, all reserves are earmarked for specific purposes;
- the general reserve is at the minimum level required (£6.5m) representing 2.5% of the overall net budget;
- most earmarked reserves are allocated to specific projects, with spending plans in place and already in progress, with the exception of:
 - (i) invest to save
 - (ii) capital expenditure
 - (iii) capital receipts – can only be used for capital purposes
 - (iv) welsh language
 - (v) city economic development

(3) PROGRESS ON SPENDING CABINET’S ONE-OFFSPENDING PRIORITIES FROM 2016/17 UNDERSPEND

15. Cabinet has previously approved the creation of a £1.5m investment reserve from the 2016/17 planned underspend. This is held in a specific reserve and drawn down to fund expenditure on key priority areas. The following is a summary of progress.

	£'000
Investment reserve	£1,500
Streetscene	(£300)
RIH	(£293)
Corporate	(£89)
Balance remaining	£818

Timetable

Ongoing

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Risk of overspending	H	M	Regular forecasting and strong financial management Revenue budget contingency	
Poor	M	M	Better forecasting in non-	AHoF

forecasting			service areas where large variances occurred in 16/17	
			Review and refinement in service areas risk based predictive models	SFBP's and budget managers
			CX/HoF setting out clear expectations	CX / HoF

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Strong financial management underpins services and medium term financial planning.

Options Available and considered

In terms of the financial position and financial management, there are no options – further in year mitigation and lower spending, from the already agreed non-essential spending controls is required to ensure that the Council brings about an overall balanced budget.

Preferred Option and Why

As noted above, there are no options. Robust implementation of the non-essential spending controls is required to manage the overall budget.

Comments of Chief Financial Officer

The current forecast points towards significant financial pressures in 2017/18 in a few key areas. Non-service area underspending has been essential to ensure that the overall budget is managed as current service area overspending significantly outweighs the revenue budget contingency available. The on-going availability of these, at current levels, cannot be guaranteed and is an on-going risk.

It will be important that longer term plans are put in place to both control and stabilise the key issues causing over-spending. Therefore, in the meantime, short term budget mitigation will continue to be needed, including from non-service areas wherever possible.

The current areas of service area overspending have continued from similar patterns in 2016/17 but have worsened considerably. This represents a potential financial resilience risk to the Council if the position is not permanently rectified in the longer term.

Comments of Monitoring Officer

There are no direct legal issues coming from of this report

Comments of Head of People and Business Change

The report on the revenue monitor does not show any specific staffing issues, although clearly issues will arise if robust monitoring and management of budgets does not take place.

Comments of Cabinet Member

The current financial position is concerning and we need all Cabinet Members with Heads of Service to ensure robust implementation of the current non-essential spending controls.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

N/A

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

This update is against a backdrop of prolonged pressure on public services as a combination of reduced income, rising demands on services, increased expectations, compliance with new legislation and the increasing costs of running services which has seen the delivery of significant budget savings over the last five years. Any future reductions in funding will need to reflect and be consistent with the five principles underpinning the Wellbeing of Future Generation (Wales) Act 2015.

Consultation

N/A

Background Papers

Dated:

- Appendix 1 Revenue Summary Monitor – September 2017
- Appendix 2 Overall Budget Monitoring Dashboard
- Appendix 3 Planned Movements in Reserves
- Appendix 4 Invest to Save funds requiring approval

APPENDIX 1 – Revenue Summary Monitor (September 2017)

Summary Revenue Budget				
	Apr-17	Current	Projection	(Under)/Over
2017/2018	Approved Budget	Budget		
	£'000	£'000	£'000	£'000
PEOPLE				
Children & Young People	21,027	21,068	22,672	1,604
Adult & Community Services	41,408	41,070	41,216	146
Education	14,859	14,878	15,464	586
Schools	90,297	90,297	93,297	3,000
	167,591	167,313	172,649	5,336
PLACE				
Regeneration, Investment & Housing	9,526	9,194	9,388	194
Streetscene & City Services	17,465	17,847	18,090	243
	26,991	27,041	27,478	437
CHIEF EXECUTIVE				
Directorate	557	557	585	28
Finance	2,719	2,719	2,665	(54)
People & Business Change	6,232	6,321	6,288	(33)
Law & Regeneration	6,493	6,524	6,494	(30)
	16,001	16,121	16,032	(89)
CAPITAL FINANCING COSTS & INTEREST				
Capital Financing Costs MRP	11,032	9,677	9,677	-
Interest Payable	9,085	9,085	9,246	161
Interest Receivable	(37)	(37)	(37)	-
Investment Props	-	-	-	-
PFI	8,315	8,315	8,315	-
	28,395	27,040	27,201	161
SUB TOTAL - SERVICE/CAPITAL FINANCING	238,978	237,515	243,360	5,845
CONTINGENCY PROVISIONS				
General Contingency	1,473	1,473	1,473	-
Restructuring / Other Savings	-	-	-	-
Centralised Insurance Fund	570	570	570	-
Non Departmental Costs	5	5	5	-
Other Income & Expenditure	4,489	4,911	5,289	378
	6,537	6,959	7,337	378
LEVIES / OTHER				
Discontinued Operations - pensions	1,576	1,576	1,512	(64)
Levies - Drainage Board, Fire service etc	8,207	8,207	8,216	9
Non distributed grants	-	-	-	-
CTAX Benefit Rebates	12,073	12,073	10,796	(1,277)
Extraordinary Items	-	-	-	-
Charity Rate Relief	-	-	-	-
	21,858	21,858	20,526	(1,332)
TRANSFERS TO/FROM RESERVES				
Base budget - Planned Transfers to/(from) Reserves	(1,001)	40	40	-
Earmarked reserves: Queensbury Loan			-	-
Earmarked reserves: Transfer to/(from) Capital			-	-
Earmarked reserves: Transfer to/(from) Schools			(3,000)	(3,000)
Earmarked reserves: Transfer to/(from) Schools Redundancy			-	-
Invest to Save Reserve			1,444	1,444
Invest to Save Reserve (from)			(1,444)	(1,444)
	(1,001)	40	(2,960)	(3,000)
TOTAL	266,372	266,372	268,263	1,891
Funded by				
WAG funding (RSG & NNDR)	(208,250)	(208,250)	(208,250)	-
Council Tax	(58,122)	(58,122)	(58,122)	-
Council Tax Surplus			(793)	(793)
TOTAL	-	-	1,098	1,098

APPENDIX 2 – Budget Monitoring Dashboard

Attached:

- Overall Council dashboard

APPENDIX 3 – Planned Movement in Reserves

Reserve	Balance at 31-Mar-17	Planned movements in year												Balance at 31-Mar-18
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
	£'000													
Council Fund:	(6,500)													(6,500)
Balances held by schools for future use	(4,831)												3,000	(1,831)
Earmarked Reserves:														
Pay Reserve	(1,418)													(1,418)
Music Service	(167)													(167)
Insurance Reserve	(1,706)													(1,706)
MMI Insurance Reserve	(602)												300	(302)
Health & Safety	(16)												16	-
Education Achievement Service	(92)													(92)
Schools Redundancies	(708)												708	-
Friars Walk	(9,985)												3,750	(6,235)
NEW - European Funding I2A & CFW	(79)													(79)
NEW - Metro Bus	(9)												9	-
SUB TOTAL - RISK RESERVES	(14,782)	-	-	-	-	-	-	-	-	-	-	-	4,783	(9,999)
Capital Expenditure	(5,817)												2,304	(3,513)
Invest to Save	(11,050)												1,444	(9,606)
Super Connected Cities	(670)												120	(550)
Landfill (fines reserve)	(345)													(345)
Christmas Lights	(15)												15	-
Usable Capital Receipts	(11,742)												8,726	(3,016)
SUB TOTAL - ENABLING RESERVES	(29,638)	-	-	-	-	-	-	-	-	-	-	-	12,609	(17,029)
STEP School Computers	(473)												100	(373)
Municipal Elections	(154)												100	(54)
Local Development Plan	(572)												(59)	(631)
Glan Usk PFI	(1,499)													(1,499)
Southern Distributor Road PFI	(44,515)												212	(44,303)
SUB TOTAL - SMOOTHING RESERVES	(47,214)	-	-	-	-	-	-	-	-	-	-	-	353	(46,861)

Works of art	(21)													(21)
School Works	(545)												73	(472)
Theatre & Arts Centre	(232)													(232)
Cymorth Income	(33)												33	-
Pupil Referral Unit	(60)													(60)
Gypsy and Traveller Site	(7)												7	-
Homelessness Prevention	(38)													(38)
Environmental Health - Improve Air Quality	(49)												49	-
Refurbishment of a Children / Older People Homes	(102)						9						77	(17)
Apprenticeship Scheme	(80)												36	(44)
City Economic Development	(90)												45	(45)
Welsh Language Standards	(240)												60	(180)
YS Dilapidation Costs Information Shop	(51)												10	(41)
NEW - School Reserve Other	(1,100)												1,100	-
NEW - Port Health	(3)												3	-
NEW - CRM	(21)						21							-
NEW - WCCIS	(54)								54					-
NEW - Investment Reserve	(1,500)												700	(800)
NEW - 2018 Events	-												(100)	(100)
SUB TOTAL - OTHER RESERVES	(4,226)	-	-	-	-	-	30	-	54	-	-	-	2,093	(2,050)
RESERVES TOTAL	(107,190)	-	-	-	-	-	30	-	54	-	-	-	22,838	(84,269)
													% reduction in year	21%

APPENDIX 4 – Invest to Save Funds requiring Approval

Invest to Save Scheme Description	2017/18 £'000
To review the Private Finance Initiatives (PFI) for both the Southern Distributor Road (SDR) and Glan Usk school	9
Communities First redundancy payments following reduced grant funding	196
Total Invest to Save to be approved	205