

Report

Cabinet



Part 1

Date: 13th September 2017

Item No: TBA

Subject **July 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 July position.

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Ward All

Summary As at July 2017, the Council's revenue budget is forecasting an **overspend of £1,492k**, excluding the impact of the revenue contingency budget. Applying the unused revenue budget contingency (£1,373k) to offset the general overspend achieves a pretty much balanced budget position.

Whilst balanced overall, there are significant overspends within service areas of £3,647k, excluding schools, mainly in the (i) Children's / Adults social care and Education's special education placements areas linked to increasing need and (ii) undelivered/delayed savings. These overspends have been partially offset by one off non-service area savings of £2,155k in respect of council tax rebates, council tax surplus and capital financing. This follows a similar pattern to 2016/17.

Use of all the Council's contingency budget at this stage is required to balance the budget and, at this early stage of the year, is a significant concern as on the basis of the current level of overspending gives no room for manoeuvre and provides no additional contingency for any unforeseen issues which may occur throughout the year.

In addition, budgets set by schools for 2017/18 will see them overspending their available funding by c£3m which will reduce the vast majority of school's individual reserves to almost zero, assuming they achieve spend to their budget level.

The report highlights some of the opportunities where forecasts may reduce over the coming 2-3 months and also on-going risk areas and issues. The position is very finely balanced and very challenging at this point and will need careful and diligent monitoring and management.

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

Proposal Cabinet is asked to:

- Note the overall budget forecast position and the key assumptions and issues which underpin and impact on the Council's financial forecast position;

- Approve the use of all of the Council's contingency budget to balance the current level of overspending, which will be assessed each month on an on-going basis;
- Agree to instruct all areas of the Council to maintain robust financial management and bring forward planned underspending wherever possible to mitigate against the current position;
- Note the level of undelivered savings within each directorate and the risks associated with this;
- Note the forecast movements in reserves;
- Note and ratify the Corporate Management Team's decision to implement a targeted spending freeze for all non-essential spend;
- Agree the use of and note the balance in respect of the investment reserve 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;
- Reduce over-spending within People and Place Directorates;
- Manage/ mitigate those projects that are unable to deliver required MTFP savings.

Timetable On going

This report was prepared after consultation with:

Strategic Directors
Head of Finance
Heads of Service
Budget Holders
Accountancy Staff

Signed

Background

Overview and Key Assumptions

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

	£'000
Overspending in service areas (exc. Schools)	3,647
Overspends in Schools	<u>3,000</u>
Service area overspends	6,647
Schools reserves transfer to cover school overspends	(3,000)
<i>Non Service underspends:</i>	
Savings on C Tax benefit rebates – lower claimant No's	(1,207)
Council Tax surplus saving – housing growth	(793)
Capital financing saving	(128)
Other (non-service) variances	<u>(27)</u>
Net Overspend	1,492

2. As at July 2017 the Councils revenue budget is projecting an overspend of £1,492k (June – £1,393k overspend). Although there are significant overspends within service areas, it is fortuitous that there are one off non-service area savings to offset just over half of this. All service areas (with the exception of Corporate) are currently forecasting an overspend against budget.
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 all of the available contingency budget broadly balances the budget in 2016/17. Cabinet is asked to allocate all of the contingency to the current level of overspending and this will be monitored and updated on an on-going basis. However, it should 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 on-going.
4. The forecast shows the Council £1,492k over budget. Key assumptions within this are:
 - Cabinet has agreed to the use of the investment reserve (spending priorities) created at the end of 2016/17 which has been assumed in current forecasts;
 - Other approved costs to deliver planned 17/18 savings are funded from the Invest to Save Reserve.
5. As always, forecasts are subject to change and especially at this early part of the year. Key areas of both upsides and risks include:

Upsides

- Additional Council Tax income and therefore surplus could be achieved over and above current forecast. This will be updated again in October when 6 months data is available.
- The RIH forecast overspend on the property area is subject to review and this could reduce following that.

Risks

- Whilst the StreetScene forecast overspend has reduced significantly following a robust review, further work and refinement will likely change this forecast again.

- The key areas of children's and adults social care are susceptible to changes as client numbers change from current forecast assumptions, as are education special education placements. Whilst always susceptible to change, these areas are showing particular challenges and stress this current year.

6. The following section highlights the key areas that contribute to the overall Council position:

- staffing projections;
- recurring pressures identified in the 2016/17 outturn position which have not been dealt with as part of the 2017/18 budget setting process;
- delivery of 2017/18 savings to date;

In addition, given the high level of overspending in children's out of area placements and special education placements, the Heads of Service for Children's social care and education have prepared specific notes on the issues currently faced in their areas and actions in place to manage the situation in going forward. They are shown In Appendix 5.

(i) Staffing

7. Employee budgets make up 38% of the Councils gross budget. The table below illustrates that a £798k forecast saving is anticipated against the £57m overall Council staff costs budget.

OVERALL STAFFING	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Budget (£'000)	56,969	56,969	57,033	56,995	56,995	56,995	56,995	56,995	56,995	56,995	56,995	56,995
Forecast (£'000)	56,969	56,636	56,822	56,197	56,197	56,197	56,197	56,197	56,197	56,197	56,197	56,197
Variance (£'000)	0	(334)	(210)	(798)	(798)	(798)	(798)	(798)	(798)	(798)	(798)	(798)

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.

(ii) Recurring Pressures and Proposed Action

8. As noted within the previous year (2016/17) revenue outturn report, there are a number of key areas of overspending which have continued into 2017/18 given the on-going and, in some areas, increasing demand and associated costs for services. These areas account for £3,967k (gross) 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	2017/18 Investment (Additional budget)	2017/18 Forecast Over/ (Under) Spend	Worsening/ (Improvement) since 2016/17 (after investment)	Notes	Proposed Action
	£'000	£'000	£'000	£'000		
Children & Family Services						
Out of area residential placements	892	(400)	1,945	1,453	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 £6k per week. This has the potential to increase should the number of placements not reduce towards the end of the year.	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	(1,044)	775	719	£775k is the gross overspend in this area based on current client numbers. This has been reduced by a one off benefit of £455k WG workforce grant bringing the net overspend down to £320k. Overall client numbers have increased by 19 since last month, however, this in part has been offset by additional supporting people savings. Client numbers have increased by 41 between March 2017 and June 2017.	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	0	1,247	330	Although the number of Out of County (OOC) placements have reduced from 173 in 2016/17 to 144 to date (2017/18) the type of pupils requiring OOC placements are for 'high end' needs which are very costly.	1. OOC placements are linked to specialist provision, expertise and therapies. Due to the need to achieve a balanced budget; a review of OOC placements has taken place to find out if more cost effective provision can be found. A list of pupils who present the lowest risks in returning to Newport has been determined. The SEN Manager and Head of Inclusion will meet with all associated parents to discuss this alternative provision. Parental agreement is essential or the LA will be at risk of SEN Tribunal. To date £300k worth of potential savings have been earmarked however at this point at £163K is largely possible. If parents agree and alternative placements are not successful, pupils will need to return to their current higher cost provision. 2. The Head of Inclusion will make the final decision on all OOC placements. 3. A spending freeze throughout the service area will support the prevention of further overspend.
SERVICE AREA SUBTOTAL	2,909	(1,444)	3,967	2,502		

Schools						
Schools - overspending position (transfer from reserves)	1,050	0	3,000	1,950	Budgets set by schools in 2017/18 will see them overspending their available funding by £3m which will reduce the vast majority of school balances to almost zero.	1. The schools resources team continues to support and challenge these schools and support ongoing work on deficit plans where appropriate. 2. A budget seminar for schools has been organised for the 14th September to discuss and agree a way forward to the current position.
SCHOOLS SUBTOTAL	1,050	0	3,000	1,950		
Non Service						
Savings on C Tax benefit rebates - lower number of claimants	(1,063)	400	(1,207)	(544)	Number of claimants will continue to be monitored. Non service savings currently offsetting significant service area overspending.	1. These budget areas continue to be closely monitored in light of new dwellings, claimants and collection rates.
C Tax surplus - housing growth	(1,539)	0	(793)	746	Non service savings currently offsetting significant service area overspending.	
Council wide staff savings	(1,135)	excess of £1m	(798)	(663)	In the main 2016/17 savings resulted from early achievement of 2017/18 saving proposals and one off funding available to fund core staffing.	
NON-SERVICE SUBTOTAL	(3,737)	1,400	(2,798)	(461)		
TOTAL (exc schools impact)	(828)	(44)	1,169	2,041		

(iii) Delivery of Medium Term Revenue Plan (MTRP) Savings:

9. 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 94% of the £5,575k 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 plan exists to mitigate.
10. The main areas of undelivered projects currently sit within the Place and People portfolio, specifically:
- Adults – the shortfall of £117k in respect of Supporting People Programme's Grant (SPPG);
 - 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	£2,829,000	£839,000	£734,000	£1,173,000	£5,575,000
Total Savings Realised by Year End 2017/18	£2,690,929	£658,833	£731,000	£1,173,000	£5,253,762
Variation to MTRP Target	-£138,071	-£180,167	£0	£0	-£321,238
Variation % to MTRP Target	-5%	-21%	0%	0%	-6%

11. 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	£324,634
Variation to MTRP Target	-£531,046
Variation % to MTRP Target	-62%

12. The £531k shortfall against a target of £856k relates to the following projects:
- Streetscene service review - £227k. Decision by Place board that this is unachievable and closure of project to be requested at CMT. The plan is to start up new project once mitigation is identified and target is to remain;
 - Landfill site income - £218k. Options are being investigated to generate income at the land fill site through its asbestos operations. The waste strategy board has decided to commission an asbestos contractor to enhance the commercial performance of the section;
 - Street cleansing service review - £59k. Options to mitigate in year currently being discussed with a proposal to reinstate this budget for 2018/19;
 - Waste (Special Collections) - £27k. Options to mitigate are currently being discussed;
13. In addition there is a £53k undelivered saving within RIH which relates to the Newport Norse joint venture profit share.

Emerging Risks/ Opportunities

14. The current risk areas and areas of emerging risks are all in the areas of current budget forecasted to overspend.

Children & Young People

- Out of County Placements – The current forecast does include provision for a further 2 additional placements. Future forecasts will update on the status of these.

Adult & Community Services

- Community Care - Large risk in this area is the ability to permanently reduce packages of care. Many of the MTFP savings in this year and previous years are focussed on package reductions. By nature these are medium term savings rather than permanent. Clients inevitably grow older and more frail and therefore reduced packages will eventually increase as they need more support.

Education

- SEN – A significant number of new out of county (OOC) placements have been approved over the summer term and although the number of placements have reduced from 2016/17 (173 places) to 2017/18 (144 places), the placements are for 'high end' needs which are, relatively, extremely costly compared to existing placements.

Streetscene & City Services

- There are some operational risks in this area which are yet to be resolved and which may require unbudgeted expenditure to resolve.

Schools

15. 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:

	Balance 31/3/17	Budgeted in-year movement 2017/18	Balance 31/3/18	Funding 17/18	Schools in deficit as at 31st March	
Sector	£	£	£	£	2017	2018
Nursery	17	-27	-10	450	1	1
Primary *	3,135	-1,698	1,437	46,818	1	1
Secondary	1,683	-2,202	-519	38,113		4
Special	-21	-155	-177	4,149	1	1
Schools contingency	0	0	0	768		
Total	4,813	-4,082	731	90,297	3	7

- 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

Use of reserves

16. Appendix 4 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 22% of the Councils reserve will be used by the end of the financial year – this is a substantial in year reduction which will see reserve balances reduce by £23.6m. 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% 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

Allocation of Funds

(ii) Progress on Implementation of 'Priorities' Spending List

17. Cabinet has previously approved the creation of a £1.5m investment reserve from the 2016/17 planned underspend. Cabinet are asked to review the levels of expenditure that have currently been drawn down from the reserve and the balance that currently remains:

	£'000
Investment reserve	£1,500
Streetscene	(£300)
RIH	(£183)
Corporate	(£99)
Balance remaining	£918

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 forecasting	M	M	Better forecasting in non-service areas where large variances occurred in 16/17	AHoF
			Review and refinement in service areas of 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 – service areas do need to bring about improvements in their financial management and work with finance support teams to deal with base budget issues via a mixture of management action to manage issues and/or re-allocate budgets as appropriate. This will also need to include a review of budget issues to resolve in the 2017/18 budget, where required and necessary.

Preferred Option and Why

Given that there may be potential for the position to worsen, SLT are asked to note the current position and the risks of this changing and decide what corrective action is to be taken to reduce the forecast overspend to budgeted levels.

Comments of Chief Financial Officer

The current forecast points towards significant financial pressures in 2017/18 which will need robust management and specific actions to mitigate, as far as is possible. If it were not for non-service area underspending, the position would be serious as current service area overspending significantly outweighs the revenue budget contingency available.

Given the significant issues in place, these should be considered in the Council's work on the 2018/19 budget and this would mean and require significantly more budget savings being identified. To that end, it is important that permanent mitigation is found to avoid this, given the challenges in balancing that year's budget already, at this point.

The Council's Cabinet and Senior Management / Heads of Service need to take specific action to mitigate this position and reflect those actions in forecasts in going forward.

The current and on-going service area overspending have continued from similar patterns in 2016/17 and actually worsened. This represents a potential financial resilience risk to the Council if the position is not permanently rectified.

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 bring forward actions to address.

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 – July 2017
- Appendix 2 Budget Monitoring Dashboards
- Appendix 3 Delivery of Medium Term Revenue Plan (MTRP) Savings
- Appendix 4 Planned Movements in Reserves
- Appendix 5 Head of Service Commentary from Childrens and Education Services

APPENDIX 1 – Revenue Summary Monitor (July 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	22,418	1,350
Adult & Community Services	41,408	41,070	41,258	188
Education	14,859	14,878	16,076	1,198
Schools	90,297	90,297	93,297	3,000
	167,591	167,313	173,049	5,736
PLACE				
Regeneration, Investment & Housing	9,526	9,194	9,692	498
Streetscene & City Services	17,465	17,847	18,287	440
	26,991	27,041	27,979	938
CHIEF EXECUTIVE				
Directorate	557	557	588	31
Finance	2,719	2,719	2,678	(41)
People & Business Change	6,232	6,321	6,304	(17)
Law & Regeneration	6,493	6,524	6,524	-
	16,001	16,121	16,094	(27)
CAPITAL FINANCING COSTS & INTEREST				
Capital Financing Costs MRP	11,032	9,677	9,549	(128)
Interest Payable	9,085	9,085	9,085	-
Interest Receivable	(37)	(37)	(37)	-
Investment Props	-	-	-	-
PFI	8,315	8,315	8,315	-
	28,395	27,040	26,912	(128)
SUB TOTAL - SERVICE/CAPITAL FINANC	238,978	237,515	244,034	6,519
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	4,812	4,840	28
	6,537	6,860	6,888	28
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	10,866	(1,207)
Extraordinary Items	-	-	-	-
Charity Rate Relief	-	-	-	-
	21,858	21,858	20,596	(1,262)
TRANSFERS TO/FROM RESERVES				
Base budget - Planned Transfers to/(from) R	(1,001)	139	139	-
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			2,066	2,066
Invest to Save Reserve (from)			(2,066)	(2,066)
	(1,001)	139	(2,861)	(3,000)
TOTAL	266,372	266,372	268,657	2,285
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	-	-	1,492	1,492

APPENDIX 2 – Budget Monitoring Dashboard

Attached:

- Overall Council dashboard