

**BUSINESS SUPPORT
OVERVIEW & SCRUTINY COMMITTEE
3 DECEMBER 2015
REVENUE BUDGET MONITORING 2015/16**

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Summary

This report details the revenue budget forecasts as at the end of September 2015 and will form the basis of the summarised report to Cabinet on 24 November 2015.

1. Budget and Policy Framework

- 1.1. It is the responsibility of Cabinet to ensure that income and expenditure remains within the budget approved by Council.
- 1.2. The Overview and Scrutiny Committee has the responsibility to scrutinise performance and the budget strategy.

2. Background

- 2.1. At its meeting on 26 February 2015, the Council set a budget requirement of £324.4m for 2015/16, whilst Council Tax was increased by 1.995%, just below the referendum limit imposed by Central Government.
- 2.2. This report represents the revenue budget monitoring for the second quarter of the financial year, summarising reports that have been considered by directorate management teams, based on returns submitted by individual budget managers. In preparing their returns, budget managers have been asked to take account of last years outturn, actual income and expenditure for the year to date and, most importantly, their knowledge of commitments and service requirements anticipated for the remainder of the financial year.
- 2.3. Table 1 contains a summary of the forecast position reflecting the individual directorate monitoring summaries attached at Appendices 1 - 4. The narrative below seeks to explain the pressures being faced and the corrective management action proposed by directorate management teams.

3. Summary Revenue Budget Position 2015/16

- 3.1 It can be seen from Table 1 that, after agreed management action, the forecast overspend for 2015/16 is estimated at £5.9m. This represents a £1.2m adverse movement relative to the position reported to Cabinet on 25 August and can be explained by increasing pressures within the Children and Adults directorate, primarily in relation to the number of 'looked after children'. Further management action plans are being formulated by management teams, however in the meantime the Chief Executive and Chief Finance Officer have instructed officers to stop incurring all non-essential spend, including the freezing of all vacant posts, where these are not essential in fulfilling direct statutory responsibilities or would not result in a loss of external income.

Table 1: Quarter 2 Monitoring Summary

Directorate	Budget 2015/16 £000s	Forecast variance £000s	Proposed action £000s	Adjusted variance £000s
Children and Adult Services:				
- Children's	33,292	3,273	(1,150)	2,123
- Adults	64,692	1,580	0	1,580
- Inclusion & Schools related budgets	135,378	1,369	(298)	1,071
Regeneration, Community and Culture	58,074	536	(70)	466
Business Support Department	6,799	774	(569)	205
Public Health	13,698	0	0	0
Interest & Financing	13,244	0	0	0
Levies	1,039	45	0	45
Digital Transformation	(450)	281	0	281
Medway Norse Joint Venture	(263)	8	0	8
Category Management Savings	(1,070)	114	0	114
Budget Requirement	324,433	7,980	(2,087)	5,893
<i>Funded by:</i>				
Dedicated Schools Grant	(111,697)	0.0	0.0	0.0
Revenue Support Grant	(38,784)	0.0	0.0	0.0
Business Rate Share	(45,866)	0.0	0.0	0.0
Council Tax	(95,250)	0.0	0.0	0.0
Public Health Grant	(16,802)	0.0	0.0	0.0
Specific Grants	(14,884)	0.0	0.0	0.0
Use of Reserves	(1,150)	0.0	0.0	0.0
Total Available Funding	(324,433)	0.0	0.0	0.0
Net Forecast Variance	0.0	7,980	(2,087)	5,893

4. Children and Adult Services (Appendix 1)

- 4.1 In spite of reporting that the agreed management action has been delivered and identifying around £2.7m of further management action, the directorate still predicts a significantly increased overspend of around £4.8m against its general fund budgets.

4.2 The forecast overspend in Children's Care has increased by £864,000 since quarter 1 and is fuelled by increasing levels of demand. The following table identifies the movement in client numbers since budget build. Aside of a slight decrease in the number of residential placements, the trend is still upward against a budget which was under pressure at the outset, especially with regards to Independent Foster Agency (IFA) placements.

Table 2: Children's Social Care statistics 2014 to 2015

	September 2014	September 2015	Percentage increase
Total LAC No's	389	444	14.1%

Placement Type	Number of Service Users in Budget Build	Number of service users at time of budget Setting Feb15	Number of service users at R1 Forecast	Number of service users at R2 Forecast	Percentage change (Feb'15 v R2)
IFA - Placement Costs	69	98	105	112	14.3%
Residential (incl. SEN) *	28	35	42	34	-2.9%
Secure Accommodation - Justice**	1	0	0	1	
Secure Accommodation - Welfare	0	0	1	0	
Foster Payments	216	224	238	248	10.7%
Special Guardianship	98	101	116	121	19.8%
Adoption Allowances	98	101	104	104	3.0%

* Includes 9 SEN placements at R1 and R2

** Secure Justice - 1 placement for 8 wks

- External Placements are forecast to overspend by £888,000 after management action;
- Internal placements are forecast to overspend by £440,000 after management action;
- Special Guardianships are forecast to overspend by £273,000 reflecting 23% more placements than budgeted;
- There is a forecast overspend of £154,000 on staffing, due to continued agency cover for vacancies and in spite of using MAFF reward funding to mitigate costs;
- There is a forecast overspend of £163,000 on the Children's Care Improvement Fund.

4.3 The forecast overspend against the Deputy Director's division has increased by £59,000 since quarter 1 and there are no significant movements to report. All of the management action agreed in quarter 1 is now reflected in the forecasts, but management are considering what further action may be achievable. The following table identifies the movement in adult social care clients this financial year. Although spending on older peoples services has reduced, the high levels of pressure on the disabilities and mental health budgets remain the highest cost driver.

Table 3: Adult Social Care Statistics 2015/16

Placement Type	Number of Service Users at Budget Build	Number of service users at R1 Forecast	Number of service users at R2 Forecast	Percentage change since Budget Build
OP - Residential	440	404	396	-10.0%
OP - Nursing	238	204	196	-17.6%
OP - Direct Payments	99	99	97	-2.0%
Total Older People	777	707	689	-11.3%
Disability - Residential	279	283	283	1.4%
Disability - Nursing	38	34	34	-10.5%
Disability - Direct Payments	464	478	479	3.2%
Shared Lives Placements	41	41	42	2.4%
Disability - Supported Living	86	108	108	25.6%
Total Disability	908	944	946	4.2%
MH - Residential/Nursing	62	67	68	9.7%
MH - Direct Payments	17	21	21	23.5%
MH - Supported Living	10	9	12	20.0%
Total Mental Health	89	97	101	13.5%

4.4 The remainder of the Children and Adults directorate is forecasting a £577,000 overspend, however after transfer of the net DSG underspends to reserves, this would leave a general fund pressure of almost £1.1m. This is essentially the result of increased demand for SEN transport and the historic under-budgeting for the pre-1998 schools early retirement costs recharged by KCC. Table 4 below summarises the forecast position.

Table 4: Disaggregation of General Fund and DSG Forecasts

	Current Budget £,000	Forecast Outturn £,000	Forecast Over/(Under) £,000	Contributions (from) / to the DSG reserve £,000	General Fund Over/(Under) £,000
Directorate Management Team					
Directorate Management Team	643	651	8	(14)	(6)
Total Directorate Management Team	643	651	8	(14)	(6)
Inclusion and School Improvement					
Early Years	19,402	20,161	759	(785)	(26)
Youth Services	2,611	2,614	3	0	3
Inclusion Management Team	505	687	182	(85)	97
School Challenge and Improvement	995	914	(81)	0	(81)
Health and Inclusion	696	844	(2)	(176)	(178)
Psychology and SEN	27,954	26,393	(1,561)	1,561	0
SEN Transport	3,779	4,671	892	0	892
Total Inclusion and School Improvement	55,942	56,284	192	515	707
Partnership Commissioning					
Commissioning Management Team	221	208	(13)	0	(13)
Business Support and Commissioning	2,668	2,717	49	0	49
School Organisation and Student Services	1,748	1,848	101	(9)	92
School Services, Quality and Commissioning	251	221	(29)	0	(29)
Total Partnership Commissioning	4,888	4,994	108	(9)	99
Schools Retained Funding and Grants					
Finance Provisions	444	391	(53)	53	0
HR Provisions	307	580	271	(3)	268
School Grants	73,157	73,207	51	(50)	1
Total Schools Retained Funding and Grants	73,908	74,178	269	0	269
Total Inclusions and Schools Related Budgets	135,381	136,107	577	492	1,069

5. Regeneration, Community and Culture (Appendix 2)

5.1 The Directorate is forecasting a budget pressure of £466,000 after management action. The main variances are outlined below:

- £251,000 pressure forecast in respect of Temporary Accommodation (B&B costs);
- Events, Arts and Theatres pressure of £219,000 including an adverse movement of £100,000 since quarter 1, resulting from a loss of income with the cancellation of one of the castle concerts;
- Greenspaces pressure of £71,000 principally owing to the inability of the Tree Team to meet a significant proportion of the £100,000 savings target agreed by Council;

5.2 These pressures have been mitigated by various smaller savings and a number of management actions agreed by the directorate management team. Furthermore, additional measures are being implemented in order to mitigate the residual pressure in full, and, with the recent announcement by the chief executive to enforce a curb on non-essential spend, the directorate is expected to deliver a break-even position by year end. The quarter 3 report to Cabinet will reflect the progress towards this position.

6. Business Support (Appendix 3)

6.1 The quarter 2 initial forecasts by budget managers represented an overspend of £774,000, however, after proposed management action this has been reduced to £205,000.

6.2 Legal, Contracts and Property

Following management action to address the historical base budget pressures arising from the Norse transfer, the division is now forecasting a £201,000 pressure, principally the result of an approved overspend to appoint four permanent lawyers and three paralegals in response to workload pressures emanating from children's care.

6.3 Chief Finance Officer

Revenues and benefits are still forecasting an over spend of £182,000 largely as a consequence of the increase in identified claimant error overpayments, attracting a 40% penalty on subsidy received. Vacancies and other under-spending have reduced the divisional forecast to a £40,000 pressure, however it is anticipated that management action to reduce commitments against the directorate training budget will mitigate this pressure.

6.4 Democracy and Customer First

The division is currently forecasting an underspend of £295,000 mainly due to staff vacancies and higher than budgeted income for the Bereavement service.

6.5 Communication, Performance and Partnership

The division was forecasting an over spend of £79,000, however, proposed management action brings the over spend down to £52,000; mainly due to under recovered income within the communications service, failure to meet service vacancy savings, offset by under spends in the Business Administration and Performance and Intelligence Hubs.

6.6 Organisational Services

The division is now forecasting an over spend of £246,000, which represents a combination of the under recovery of fees, charges and course fee income within the Adult Education Service, being offset by under spends in Human Resources and ICT.

6.7 Management Action

Rigid adherence to the moratorium and a freeze on vacancies are expected to bring the Business Support Department back to at least a breakeven position.

7. Non-distributable Budgets

7.1. Digital Transformation

The project is forecasting £281,000 under recovery of its savings target, as the full year effect was always a challenge for a project commencing in April 2015. Progress has been slower than planned as it has been necessary to address unanticipated legacy ICT infrastructure issues. Our existing ICT infrastructure was fit for purpose, but our requirements have now changed as we are seeking to put more services on line and deliver maximum efficiencies by digitising end to end processes, rather just the initial contact elements. This has meant that the set up phase has been protracted with additional development being brought within scope of the project – buying and implementing a new online payments portal as the current one could not be modified for all audience requirements (e.g. smartphone/tablet), developing a new digital integration hub to allow integration from back-office systems to e-forms, enhancing infrastructure security. This has had the inevitable effect of delaying the development of the new online transactions that will facilitate the release of savings. We estimate that £169,000 saving will be realised in year.

7.2. Category Management Savings

Category management has realised £730,000 (41%) of the £1.8 million baseline savings target and is predicting that the target will be met, with the exception of £114,000 in relation to savings made on the Yellow Bus service, which were redeployed to meet pressures against statutory services.

7.3. Levies

The transfer of coroners officers from the police to the council have created more financial pressure than was originally anticipated; this is resulting in a £45,000 overspend forecast.

7.4. Medway Norse Profit Share

The council is forecasting to achieve the budgeted profit share in the current financial year. However, accrued profit share for 2014/15 will be short by £8,000.

8. Public Health

- 8.1. The Public Health Grant receivable for 2015-2016 will be reduced by over £1.0m by the Department of Health, although this has not yet been reflected in budget control totals, and work is on-going to determine which activities and services will be reduced accordingly. As the grant is ring-fenced, any under or over spending against the reduced baseline would be offset by contributions to or from the Public Health Reserve.

9. Planned Use of Reserves

- 9.1 The agreed budget utilises £1.15m to fund various revenue and capital projects. £1.0m is to be funded from the South Medway Development Fund and the other £100,000 from the Public Health Reserve.

10. Housing Revenue Account

- 10.1. The Housing Revenue Account (HRA) is reporting a projected surplus of £1,528,000 which represents a favourable variance of £542,000 when compared to the budgeted surplus of £986,000.

10.2. The service is mindful of recent government announcements to reduce rent charges by 1% year on year for four years. Work has been initiated to review the impact on the 30 year business plan.

11. Conclusions

11.1. The first round of monitoring returns received from budget managers predicted a potential overspend of £9.4m although planned management action reduced this to £4.7m. Unfortunately the continued increase in the number of children being taken into care has resulted in the forecast overspend increasing to £5.8m and the local authority has had to resort to imposing a restriction on non-essential spend much earlier than in previous years.

12. Financial and legal implications

12.1. The financial implications are set out in the body of the report. There are no legal implications within this report.

13. Recommendations

13.1 Members of the Overview and Scrutiny Committee are invited to note and comment on the forecast outturn position and proposed management actions following round 2 of the revenue budget monitoring for 2015/16.

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Background Papers:

Capital and Revenue Budgets 2015/16 report to Council 26 February 2015

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&MId=2974&Ver=4>

Revenue Budget Monitoring 2015/2015 – Round 1 report to Cabinet 25 August 2015

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=3161&Ver=4>

Appendices:

Appendix 1 – Children and Adult Services

Appendix 2 – Regeneration, Community and Culture

Appendix 3 – Business Support

Appendix 4 – Public Health