

Report of the Cabinet Member for Finance and Strategy

Cabinet – 10 December 2015

REVENUE AND CAPITAL BUDGET MONITORING 2ND QUARTER 2015/16

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| Purpose: | To report on financial monitoring of the 2015/16 revenue and capital budgets, including the delivery of budget savings. |
| Policy Framework: | Budget 2015/16 Sustainable Swansea –fit for the future |
| Reason for Decision: | To note any significant variations from the agreed budget 2015/16 and savings plan and the actions planned to seek to achieve a balanced budget. |
| Consultation: | Cabinet Members, Corporate management Team, Legal Services and Corporate Equalities Unit. |
| Recommendation: | It is recommended that the comments and variations in this report, and the actions in hand to address these, are noted. |
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1. Background and Introduction

- 1.1 This report details forecast variations from the agreed budget for 2015/16, including the latest assessment of the delivery of savings.
- 1.2 In respect of Revenue Budgets, this report provides a consolidated forecast which combines the three key elements that contribute to budget variations, being:
 - **Variations to planned budget savings** (mainly shortfalls) agreed by Council in February 2015 (Appendices C, D and E to this report)

- **Upward variations** overspends arising from service pressures not directly linked to specific savings plans (e.g. increased demand) These variations may be one-off or recurring
- **Additional savings/additional income** identified during the year that can mitigate the effects of the above. These variations may be one-off or recurring.

1.3 The report includes comments from Directors in relation to the variations highlighted and the action that is in hand or proposed as appropriate.

2. Revenue Outturn Forecast Based on September position

2.1 Appendix 'A' to this report details the approved Revenue Budget for 2015/16 and the forecast variation at this time.

2.2 Other than projected variations on Directorate expenditure, there is the potential for variations to occur in three main areas of the Council's budget. These are:-

- Use of contingency fund, detailed in Section 3 of this report.
- Movements in Capital Financing charges – these cannot be forecast at the present time but given prevailing interest rates are not likely to result in overspend
- Collection of Council Tax – whilst a surplus may occur it should be treated as a one off and not reflected in overall performance against service budgets. However, at this stage it would be prudent to assume nil variance from budget.

2.3 The overall Directorate position is summarised below:-

DIRECTORATE

| | FORECAST VARIATION 2015/16 £000 | SAVINGS VARIATION 2015/16 £000 | OTHER VARIATION 2015/16 £000 |
|---|--|---|---|
| CORPORATE SERVICES | -840 | 100 | -940 |
| PEOPLE - POVERTY AND PREVENTION | -25 | -25 | 0 |
| PEOPLE - SOCIAL SERVICES | 2,112 | 2,155 | -43 |
| PEOPLE - EDUCATION | 1,732 | 663 | 1,069 |
| PLACE | -320 | 285 | -605 |
| ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED | 2,418 | 2,418 | |
| <u>NET DIRECTORATE EXPENDITURE</u> | 5,077 | 5,596 | -519 |

2.4 Directors' comments on the above variations are shown at appendix 'B' :-

2.5 The position on Workstream savings is dependent on savings being identified and reflected within Directorate Budgets for 2015/16. It is clearly essential that work continues in this area if the forecast budget outturn is to be improved. Following the approval of the revised *Sustainable Swansea* Delivery Programme, work is underway to develop service delivery plans that will include all savings requirements across Workstreams and Delivery Strands.

2.6 The above predicted overspend represents a significant improvement on the forecast year end position as at quarter 1 (£8.056m overspend), but still represents a significant risk to the Council's finances.

There has been considerable efforts in the area of Social Services with the predicted deficit for the year currently predicted at £2.1m as against £3.7m at quarter 1. There have also been improvement in respect of predicted outturn for Corporate Services and Place budgets.

The projected overspend needs to continue to be addressed on a whole Council basis as it is unlikely at the present time that alternative savings will be deliverable within Education or Social Services Budgets alone. However, it remains the case that both Directorates should review expenditure and income on a day to day basis with a view to reducing net costs.

Many of the overspend items follow on from the outturn position for 2014/15 and need to be considered in the light of the forecast savings going forward within the Medium Term Financial Plan, and the cumulative effect of non-achievement savings on the MTFP deficit going forward.

2.7 Executive Board has strengthened the current arrangements for budget monitoring with the aims of:-

- quicker reporting;
- focus on corrective action;
- increased control;
- and a specific focus on the large scale savings required and built into the 15/16 budget.

2.8 In the light of the continued projected overspend, the Section 151 Officer issued emergency spending restrictions in October 2015 designed to restrict discretionary spend wherever possible and to focus authorisation for expenditure in key areas to responsible officers as defined in the Council's constitution.

Where any reduction in planned expenditure is likely to affect service delivery the restrictions make clear that there should be consultation with the appropriate Cabinet Member prior to expenditure being stopped.

It remains the case that all Officers and Cabinet Members should continue to robustly Challenge all areas of expenditure with the aim of further reducing the current year forecast deficit.

3. Contingency Fund Provision for 2015/16

3.1 There is no carry forward of previous years underspends into the contingency fund for 2015/16. As such the contingency fund is set at the £5.4m contribution set out in the budget report approved by Council on 24th February 2015.

3.2 The estimated calls on the contingency fund at present are:-

| Contingency Fund 2015/16 | Prediction |
|--|-------------------------|
| | 2015/16 (£m) |
| Contribution for year | 5.400 |
| Care Home fees uplift | -0.370 |
| ERVR scheme | -4.000 |
| Carbon Reduction Scheme | -0.150 |
| Education management resource | -0.108 |
| Additional Coroners costs | -0.050 |
| Legal fees in respect of judicial review | 0.252 |
| Balance 31st March | 0.470 |

In line with previous years it is proposed to fund the actual care home fees uplift (current estimate £0.37m) from the contingency fund. There are also known additional costs resulting from the statutory obligation to fund the costs of the Coroners Office for 2015/16 and beyond , additional costs as a result of the Carbon Reduction Scheme and costs in relation to supporting the Education management team as a result of vacancies. Costs relating to the judicial review on home to school transport will also be met from the fund.

Any departures under ER/VR in 2015-16 will again be charged to the contingency fund as a one off cost to release future revenue savings.

3.3 The scale of potential overspends for 2015/16 are significantly in excess of any potential sum available from contingency fund to meet the shortfall, and the current indication is that there needs to be continued urgent and decisive action to pursue additional savings across the Council if an overall balanced budget is to be achieved. The above projected Departmental overspend position includes the additional £3m built into the Council's overall Revenue Budget in respect of procurement and asset savings.

3.4 It should be noted that at this time, although the Council continues to pursue a number of VAT related claims, there is NO notification of substantial windfalls from VAT refunds or any other external source in the current year.

4. Revenue Budget Summary

- 4.1 The position reported above reflects the best known current position.
- 4.2 Executive Board have reinforced the expectation that overall net expenditure must be contained within the limits of the current year budget as set by Council.
- 4.3 The overall judgement at this point is that there continues to be an urgent need to identify significant additional budget savings across all Council Services if a balanced outturn for 2015/16 is to be achieved.
- 4.5 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis. Should there be no improvement in the overall forecast by the end of quarter 2 it may be the case that additional measures will have to be imposed in order to move closer to a balanced budget for 2015/16.

5. Capital Budget

- 5.1 Expenditure to 30th September 2015 is £34.201m, as detailed below:

| Directorate | Budget 2015/16 | Actual to 30/9/15 | % spend |
|--------------------|---------------------------|----------------------------------|--------------------|
| Corporate Services | 2,756 | 59 | 2.1% |
| People | 12,594 | 4,341 | 34.5% |
| Place | 106,936 | 29,801 | 27.9% |
| Total | 122,286 | 34,201 | 28.0% |

The above figures exclude the cost of the HRA buyout which is a one off capital event in 2015-16.

Expenditure on major schemes is detailed in Appendix F.

6. Legal Issues

- 6.1 There are no legal issues contained within this report.

7. Equality issues

- 7.1 The Revenue budget of the Council was approved following extensive Equality Impact Assessments being undertaken throughout the Budget setting process. It is essential where service levels are affected by changes to the Revenue Budgets (including

savings options) that adequate prior consideration is given to the equality impact of such decisions and appropriate engagement activities are undertaken

Background papers: - None

Appendices: Appendix A – Revenue Budget forecast 2015/16
Appendix B – Directors comments on variances
Appendix C – Commentary on Savings Tracker
Appendix D – Savings tracker chart
Appendix E – Savings tracker summary
Appendix F - Expenditure on major Capital Schemes

REVENUE BUDGET PROJECTION QUARTER 2 2015/16

| <u>DIRECTORATE</u> | BUDGET 2015/16 £000 | PROJECTED 2015/16 £000 | VARIATION 2015/16 £000 |
|--|------------------------------------|---------------------------------------|---------------------------------------|
| CORPORATE SERVICES | 45,428 | 44,588 | -840 |
| PEOPLE - POVERTY AND PREVENTION | 4,961 | 4,936 | -25 |
| PEOPLE - SOCIAL SERVICES | 104,082 | 106,194 | 2,112 |
| PEOPLE - EDUCATION | 156,291 | 158,023 | 1,732 |
| PLACE | 52,980 | 52,660 | -320 |
| ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED | -2,562 | -144 | 2,418 |
| <i>NET DIRECTORATE EXPENDITURE</i> | 361,180 | 366,257 | 5,077 |
| <i>OTHER ITEMS</i> | | | |
| <i>LEVIES</i> | | | |
| SWANSEA BAY PORT HEALTH AUTHORITY | 94 | 94 | 0 |
| <i>CONTRIBUTIONS</i> | | | |
| MID & WEST WALES COMBINED FIRE AUTHORITY | 11,773 | 11,773 | 0 |
| <i>CAPITAL FINANCING CHARGES</i> | | | |
| PRINCIPAL REPAYMENTS | 14,541 | 14,541 | 0 |
| NET INTEREST CHARGES | 14,357 | 14,357 | 0 |
| <i>NET REVENUE EXPENDITURE</i> | 401,945 | 407,022 | 5,077 |
| <i>MOVEMENT IN RESERVES</i> | | | |
| GENERAL RESERVES | -1,200 | -1,200 | 0 |
| EARMARKED RESERVES | 7,321 | 7,321 | 0 |
| <i>TOTAL BUDGET REQUIREMENT</i> | 408,066 | 413,143 | 5,077 |
| DISCRETIONARY RATE RELIEF | 375 | 375 | 0 |
| <i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i> | 408,441 | 413,518 | 5,077 |
| COMMUNITY COUNCIL PRECEPTS | 910 | 910 | 0 |
| <i>TOTAL REQUIREMENT</i> | 409,351 | 414,428 | 5,077 |
| <i>FINANCING OF TOTAL REQUIREMENT</i> | | | |
| REVENUE SUPPORT GRANT | 237,542 | 237,542 | 0 |
| NATIONAL NON-DOMESTIC RATES | 70,092 | 70,092 | 0 |
| COUNCIL TAX - CITY AND COUNTY OF SWANSEA | 100,807 | 100,807 | 0 |
| COUNCIL TAX - COMMUNITY COUNCILS | 910 | 910 | 0 |
| <i>TOTAL FINANCING</i> | 409,351 | 409,351 | 0 |

Directors comments on budget variances**Appendix 'B'****Director of Corporate Services**

| Variance | £000 | Explanation and Action |
|---|------|---|
| 2015/16 planned savings - income for trading Corporate Health and Safety advisory functions | 70 | Additional time is required to develop the business case for achieving income Savings will be found elsewhere in the Service Area to offset the projected income |
| Reduction of Child and Family legal budget | 30 | Timing of the saving. This will be achieved |
| Staff vacancies across the board | -340 | Includes (but not exclusively) posts kept open in advance of future saving requirements |
| Council Tax Reduction Scheme | -600 | Reduction in demand for discounts under the scheme |

Given the overall financial position of the Council the Directorate will continue to identify further savings opportunities on an on-going basis.

Director of People**Social Services**

| Variance | £000 | Explanation and Action |
|--|-------|---|
| 2015/16 planned savings - reduction in Social services transport | 50 | Original saving did not occur but alternatives are being implemented which have achieved a part saving |
| 2015/16 planned savings - Reduce number of Assessments and Reviews | 100 | The move to hubs has now occurred and processes will be reviewed to identify potential savings arising from the integration of services. |
| 2015/16 planned savings - Integration Plan: Network Hubs | 150 | The move to hubs has now occurred and processes will be reviewed to identify potential savings arising from the integration of services. |
| 2015/16 planned savings - Reablement :- Development of pathways to help people remain in their own homes | 1,125 | We are undertaking a full commissioning review of domiciliary care to inform this potential saving. In the meantime a full review of intake procedures and a full review of case management are underway. |
| 2015/16 planned savings - Development of Reablement across Young Adults | 150 | We are undertaking a full commissioning review of domiciliary care to inform this potential saving. In the meantime a full review of intake procedures and a full review of case management are underway. |
| 2015/16 planned savings - Redesign | 350 | We are undertaking a full commissioning review of domiciliary care to inform this potential |

| | | |
|---|-------|---|
| Home Care / Day Care for those with Complex Needs | | saving. In the meantime a full review of intake procedures and a full review of case management are underway. |
| 2015/16 planned savings - Residential Service External Learning Disability | 230 | This is an identified area of pressure. |
| Additional spend pressures – learning disability residential placements | 1,339 | We are implementing proposals to improve case management and are robustly reviewing shared financial responsibilities with health partners. Action is being taken to improve our procedures around recharging. |
| Additional spend - community equipment service | 190 | There is increased demand in this area. |
| Domiciliary Care | 197 | There is increased demand in this area. Work is being undertaken to understand the causes of this. |
| External Residential Care | -686 | Attributable to additional windfall income as well as a reduction in spend. |
| Net reductions in spend across various areas within Adult Services | -393 | Significant work is ongoing to further reduce the overspend and to contribute to the ongoing sustainability of the service. Management action to date has started to have an impact and it is hoped that this will continue as the year progresses. |
| Net reductions in spend across various areas within Child and Family Services | -690 | The effects of the Safer LAC reduction strategy have seen reductions in legal expenditure, whilst tight financial control has achieved savings in other areas. |

Education

| Variance | £000 | Explanation and Action |
|---|------|---|
| 2015/16 planned savings - behaviour review and EOTAS | 455 | The decision on the new model was delayed. Timing of this means the full year effect of the restructure will be in 2016/17. |
| 2015/16 planned savings - part – breakfast club provision | 100 | The target saving in this area was highly challenging. The implications of achieving the full saving as originally intended were found to be unacceptable, so alternative options were implemented. |
| 2015/16 planned savings - Home to school transport | 108 | Withdrawn due to Judicial Review outcome. A review is being undertaken of implications and potential next steps. The saving proposal relating to removal of Passenger Assistants, has also been withdrawn |
| Additional pressure – | 800 | This is a timing issue and relates to an ongoing |

| | | |
|--|------|---|
| Employment training services | | overspend situation. Cabinet took a decision in August to address this and which will result in additional costs which are now the subject of negotiation. It is expected that full year effect of the saving will be felt in 2016/17. |
| Additional pressures – Recoupment/Out of County placements | 755 | Continued pressure as places within Swansea mitigated as far as possible by placements with other local authorities as opposed to more expensive independent sector places. These are highly volatile areas of expenditure. |
| Additional pressure – home to school transport | 344 | This relates to the increase in demand in SEN Transport due to pressure on places in Specialist Teaching Facilities and the need to tightly manage placements across the City and County, together with the cost of the temporary relocation of Lon Las pupils. |
| Specific Savings | -605 | Identified in year savings on Insurance Charges and Access to Learning (Other) as well as brought forward savings on EMLAS and the Music Service. |
| Other net miscellaneous saving | -225 | Management continues to take action to identify and realise savings elsewhere in the budget. |

Director of Place

| Variance | £000 | Explanation and Action |
|--|------|---|
| Non closure of Pennard Library | 34 | Deferred pending outcome of commissioning review for Library Service |
| 2015/16 planned savings - leasing of seasonal attractions | 65 | Deferred pending commissioning review for Leisure services |
| 2015/16 planned savings - transfer of Leisure Centres to a Trust model | 100 | Deferred pending commissioning review of Leisure Services |
| 2015/16 planned savings - closure of Plantasia | 100 | Closure deferred pending the outcome of the Planning Appeal |
| Other savings being made across all services in order to balance budget | -299 | One off savings identified in order to achieve Directorate balanced budget, reducing unnecessary expenditure and maximising income where possible |
| 2015/2016 planned savings – income targets in Public Protection | 72 | Some income fees introduced i.e Pest Control, Asset Recovery and Conveyancing Enquiries are having a slower uptake than anticipated |
| Net Reductions in Spend and Income Generation within Public Protection and the Directorate | -452 | Underspends as a result of additional income for Crematorium, Registrars and other Public Protection services as well as reduced expenditure in Pollution and Public Health and |

| | | |
|--|------|---|
| | | the Place Directorate. |
| Additional Spend Pressure in Planning Services | 75 | Unbudgeted costs have arisen within planning services due to a one-off appeal |
| 2015/16 planned savings – Double shifting of collection vehicles to reduce fleet | 25 | It is proposed to mitigate savings by progressing savings as fast as possible following the Commissioning Review. |
| 2015/16 planned savings – Delete up to 8 staff posts | 15 | It is proposed to mitigate savings by progressing savings as fast as possible following the Commissioning Review. |
| 2015/16 planned savings – Replace existing pink bags with reusable hessian sacks | 25 | It is proposed to mitigate savings by progressing savings as fast as possible following the Commissioning Review. |
| Additional Spend Pressure in Waste Management | 240 | Costs arising from the reduction in Sustainable Waste Management Grant, additional costs on Food Waste Contract and reduction in recycling income. |
| Increased income in Corporate Building & property Services | -230 | Increased Strategic Estates Rental Income (£80k); Strategic Estates Rates Rebates (£125k); Additional estates rental income (£10k) and additional room hire income (£15k) |
| Net reduction in spend in Corporate Building & Property Services | -85 | Comprising staff under-spends due to vacancies (£55k) and other miscellaneous under-spends (£30k) |
| Highways & Transportation - near break-even | -5 | Unachieved 2015/16 planned savings – MOT additional income (£30k) and Charge at free district centre car parks (£25k) and prior year's unachieved fleet utilisation savings (£109k) offset by net under-spends across Highways & Transportation |

Overall Target

The overall target was set at £26.774m by Council on 24/02/15 and remains needed to balance the budget. Cabinet has received update (Sept 15) flagging substantial variation from target of around £6.5m in savings and agreed principles for potential steps to address the gap which we expect will close. There will be significant shortfalls in some delivery strands which will be addressed in year mostly by one off actions.

Firm/To date

A fairly strict interpretation of "firm" has been used. This assessment was done during the first week of November and approx. £7m of service and staffing savings are considered firm. Council tax income which is predominantly certain and planned reserve and contingency use bump up overall position so approximately 62% of the total target is considered "firm". This is expected and acceptable for month 7 position. **TIMING**

Forecast

The overall weighted forecast is 81%, so significantly short of where we should be, and unacceptable for the start of third quarter (RED). There has been no significant improvement in October so the position remains RED (short by more than 15%) This outcome is heavily influenced by the significant gaps in delivery strands and to a lesser extent in some service savings. **PREDOMINANTLY TIMING BUT SOME LARGE GAPS**

Service Savings

There are significant and continuing gaps in Social Services and Education savings and these have already been escalated up to and reported to Cabinet. Without significant action these variations are significant enough to indicate that the overall budget will be overspent. **PREDOMINANTLY TIMING BUT SUBSTANTIALLY BELOW TARGET IN SOCIAL SERVICES AND EDUCATION**

Staffing

Progress has been made firming up on all staff savings except the education proposals. Progress has been undoubtedly limited in that area given the significant and prolonged senior management absences **ON TARGET EXCEPT EDUCATION**

Delivery Strands

Insufficient progress has been made on agreeing additional tangible cash releasing savings in two of the delivery strands (to the extent of removing budgets from departments). Assets and Third Party Spend. £1.058m of existing base transfers is due to be implemented but still not reflected. There is about £0.4m likely of additional base line savings. Shortfall of at least £1.5m expected. The other two, Schools and the Transformation fund (negative so actually additional spend) are considered fully firm. **TIMING AND LIKELY SIGNIFICANT NON DELIVERY**

Other Savings

The nature of these savings is that they are mostly fully assured right at the start of the year. The exception is Council Tax which ultimately depends upon collection performance. At this stage we are confident we are on target to achieve all savings.
ON TARGET

Risks and Issues to Address This Time

Overall rate of progress is stalled and as expected and highlighted last month, but performance is not acceptable for the start of third quarter and hence is marked RED. HOWEVER this masks significant under performance in Education and Social Services and an absence of sufficient evidence to assure on Delivery Strands savings. Progress otherwise in other areas and streams is actually quite good.

Cabinet has been advised of a likely £6.5m shortfall and agree a need for phased responses which if not implemented rapidly will result in additional in year savings targets being implemented. Revised and refreshed spending restrictions are now in place which should deliver some reduction in the shortfall.

Much stronger work needs to be done challenging and assuring the Delivery Strands (the cross authority streams not yet built into service budgets) in terms of taking cash off budgets. This continues to be progressed but is not yet complete.

There have been delays in assuring and validating savings in the Delivery Strands, . The Delivery Strands are identifying opportunities particularly in third party spend, but only in year, cashable, non HRA and non schools savings can actually be "banked". Total efficiencies unequivocally identified by procurement amount to over £3m, but no more than £700k is cashable and just over £400k is currently considered firm. Many savings are proving to be only cost avoidance or contributing only to existing service savings strategies. **There is scope for one off savings (NNDR rebates, insurance charges £438k) to plug some of the gap.**

SIGNIFICANT DELIVERY ISSUE IN CURRENT YEAR

Comments and feedback from PFMs

People PFM

The broad value of shortfalls are agreed and the Directorate accepts and understands as a first call it has to seek to develop compensating savings. Some work has now been progressed on developing an action plan to address some of those gaps by compensating savings elsewhere, especially in Social Services, but an overall gap will persist and this is why those areas remain marked RED.