

Report of the Cabinet Member for Finance and Delivery

Cabinet - 15 February 2016

REVENUE AND CAPITAL BUDGET MONITORING 3rd QUARTER 2015/16

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 are forecast to be materially underspent on the interest element by £1.5m. The potential externalisation of a large proportion of the capital financing requirement has not been undertaken during 2015/16 due to easing of the interest rate environment, resulting in a continuation of historically low interest rates beyond the period indicated by the Governor of the Bank of England during the early part of 2015/16. The Council receives regular advice from its treasury management advisers, Capita Asset Management, which has informed the current position. It is, however, prudent to continue to make provision for increases in interest payments. It is anticipated as part of financial risk mitigation that we will externalise some £20m of borrowing during the early part of 2016/17 in order to secure access to historically low interest rates over the medium term.
- 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 in Table 1 below:-

Table 1 – Forecast Directorate Outturn position

<u>DIRECTORATE</u>	FORECAST VARIATION 2015/16 £000	SAVINGS VARIATION 2015/16 £000	OTHER VARIATION 2015/16 £000
CORPORATE SERVICES	-1,065	195	-1,260
PEOPLE - POVERTY AND PREVENTION	-112	-25	-87
PEOPLE - SOCIAL SERVICES	601	2,305	-1,704
PEOPLE - EDUCATION	2,275	1,707	568
PLACE	-1,600	270	-1,870
ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED	2,418	2,418	
<i>NET DIRECTORATE EXPENDITURE</i>	2,517	6,870	-4,353

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, although the delivery of significant underspends across two of the Directorates would suggest the potential for longer term savings to be identified with an expectation of continued delivery into 216/17. 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 2 (£5.077m overspend), but still represents a significant risk to the Council's finances. The movement in forecast Directorate position over the three quarters reported is as shown in Table 2 below:

Table 2 – Movement in forecast directorate outturn position

	Quarter 3 £'000	Quarter 2 £'000	Quarter 1 £'000	Movement Q1/Q3 £'000
CORPORATE SERVICES	-1,065	-840	-100	-965
PEOPLE - POVERTY AND PREVENTION	-112	-25	0	-112
PEOPLE - SOCIAL SERVICES	601	2,112	3,700	-3,099

PEOPLE - EDUCATION	2,275	1,732	1,600	675
PLACE	-1,600	-320	0	-1,600
ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED	2,418	2,418	2,856	-438
	<u>2,517</u>	<u>5,077</u>	<u>8,056</u>	<u>-5,539</u>

There has been further considerable efforts in the area of Social Services with the predicted deficit for the year currently predicted at £0.6m as against £2.1m for quarter 2 and £3.7m at quarter 1. There have also been improvements in respect of predicted outturn for Corporate Services and Place budgets, as set out in the Directors' comments that follow in this report.

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. These restrictions remain extant and will be re-enforced as we move towards year end.

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 during the remainder of the year.

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 shown in Table 3 below

Table 3 – Forecast Contingency Fund position

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
Provision in respect of Employment Training	-0.790
Legal fees in respect of judicial review	-0.172
Balance 31st March	-0.240

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.

The potential charge detailed above in respect of Employment Training represents the maximum potential cost of transfer of the service to a third party.

3.3 There is no provision within Contingency Fund to set against any Directorate overspend for 215/16.

3.3 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 Appendix 'A' to this report shows the forecast revenue budget outturn position based on the above assumptions. In particular it should be noted that the overall forecast at this time is for a net budget overspend of £1.221m which, if it materialised, would have to be funded from an additional transfer from General Reserves at that amount in addition to the planned use of £1.2m for the year, i.e. an overall reduction in available general reserves moving forward of £2.441m
- 4.2 There remains significant risk in terms of the forecast revenue outturn position with regard to payments of back-pay to staff who have gained under appeal following the introduction of single status terms and conditions from 1st April 2014.
- 4.3 These payments are included in staff pay and will be largely made during the period January-March 216 and, to the extent that they exceed current budget, may adversely affect Directorate forecast expenditure as shown at the end of quarter 3.

5. Capital Budget

- 5.1 Capital expenditure to 31 December 2015, including HRA Capital spend is £55.186m, as detailed below:

Directorate	Budget 2015/16	Actual to 31/12/15	% spend
	£'000	£'000	
Corporate Services	2,165	99	4.6%
People	12,863	7,042	54.7%
Place	103,714	48,045	46.3%
Total	118,742	55,186	46.5%

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. HRA Projected Revenue Outturn Summary

- 6.1 Forecast spending in 15/16 is showing an underspend of £0.45m. This comprises an increase in fees for Capital Works (£0.2) plus a reduction in borrowing costs (£0.4m) due to the use of more Capital Receipts. These have been offset by a slight fall in rent income (£0.15m).

7. Legal Issues

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

8. Equality issues

8.1 The budget setting process is subject to the corporate Equality Impact Assessment process. It continues to be essential that 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 - Capital Expenditure on major schemes

REVENUE BUDGET PROJECTION QUARTER 3 2015/16

<u>DIRECTORATE</u>	BUDGET 2015/16 £000	PROJECTED 2015/16 £000	VARIATION 2015/16 £000
CORPORATE SERVICES	45,703	44,638	-1,065
PEOPLE - POVERTY AND PREVENTION	4,961	4,849	-112
PEOPLE - SOCIAL SERVICES	104,734	105,335	601
PEOPLE - EDUCATION	156,291	158,566	2,275
PLACE	52,975	51,375	-1,600
ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED	-2,562	-144	2,418
<i>NET DIRECTORATE EXPENDITURE</i>	362,102	364,619	2,517
<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	12,857	-1,500
<i>NET REVENUE EXPENDITURE</i>	402,867	403,884	1,017
<i>MOVEMENT IN RESERVES</i>			
GENERAL RESERVES	-1,200	-2,421	-1,221
EARMARKED RESERVES	6,399	6,603	204
<i>TOTAL BUDGET REQUIREMENT</i>	408,066	408,066	0
DISCRETIONARY RATE RELIEF	375	375	0
<i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i>	408,441	408,441	0
COMMUNITY COUNCIL PRECEPTS	910	910	0
<i>TOTAL REQUIREMENT</i>	409,351	409,351	0
<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 Directorate to offset the projected income
New Communications Model	80	Additional time is required to develop the business case for achieving the saving which will require reductions on budgets across the Council Savings will be found elsewhere in the Directorate to offset the projected saving
Full Cost Recovery recharge of work undertaken for outside bodies / charities.	20	Additional time is required to develop the business case for achieving income Savings will be found elsewhere in the relevant service to offset the projected income
Cease all activities in terms of primary school financial support	25	Additional time is required to develop the business case for achieving the saving Savings will be found elsewhere in the relevant service to offset the projected saving
Staff vacancies across the board	-485	Includes (but not exclusively) posts kept open in advance of future saving requirements as part of the implementation of the Business Support new model
Council Tax Reduction Scheme	-775	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	1,275	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. Increased demand in this area has eradicated the possibility of savings in the current year.
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 Home Care / Day Care for those with Complex Needs	350	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 - Residential Service External Learning Disability	230	This is an identified area of pressure.
Additional spend pressures – learning disability residential placements	1,531	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. Work is underway to identify ways of improving efficiency and reducing spend.
Domiciliary Care	239	There is increased demand in this area. Work is being undertaken to understand the causes of this.
External Residential Care	-990	Attributable to additional windfall income as well as a reduction in spend.
Net reductions in spend across various areas within Adult Services	-674	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	-2,000	The effects of the Safe LAC reduction strategy including reductions in legal expenditure and tight financial control has achieved savings in other areas.

Education

Variance	£000	Explanation and Action
2015/16 planned savings - behaviour review and EOTAS	310	The decision on the new model was delayed and will not be fully implemented until 2016/17
2015/16 planned savings – Out of County provision/Recoupment	50	Continued pressure in a highly volatile area
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 – Employment training services	1,080	This is a timing issue and relates to an ongoing 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 effect of the savings will not be felt until 2016/17.
Additional pressures – Recoupment/Out of County placements	850	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	400	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	-460	Identified in year savings on Insurance Charges, Access to Learning as well as brought forward savings on EMLAS.
Other net miscellaneous saving	-163	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	65	Deferred pending commissioning review for

savings - leasing of seasonal attractions		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	-669	One off savings identified in order to achieve Directorate balanced budget, reducing non-priority expenditure and maximising income
2015/2016 planned savings – income targets in Public Protection	62	Some income fees introduced i.e Pest Control and Conveyancing Enquiries are having a slower uptake than anticipated
Net Reductions in Spend and Income Generation within Public Protection and the Directorate	-752	Underspends as a result of additional income for Adaptions installation work, 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	45	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 – 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	190	Costs arising from the reduction in Sustainable Waste Management Grant, additional costs on Food Waste Contract and reduction in recycling income.
Additional Spend Pressure in Neighbourhood Working	125	Additional costs in Street Cleansing.
Increased income in Corporate Building & property Services	-495	Increased Strategic Estates Rental Income (£150k); Strategic Estates Rates Rebates (£165k); Additional estates rental income (£10k); additional room hire income (£15k); Property Capital Group Income (£155k)
Net reduction in spend in Corporate Building & Property Services	-180	Comprising staff under-spends due to vacancies (£135k) and other miscellaneous under-spends (£45k)
Net Reduction in spend in Highways & Transportation	-275	Unachieved 2015/16 planned savings – MOT additional income (£30k) and Charge at free district centre car parks (£25k) and prior year's

		unachieved savings (£125k) offset by net under-spends across Highways & Transportation
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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.