



Report of the Cabinet Member for Service Transformation & Business Operations

Cabinet - 16 November 2017

Revenue and Capital Monitoring 2nd Quarter 2017/18

Purpose:	To report on financial monitoring of the 2017/18 revenue and capital budgets, including the delivery of budget savings.
Policy Framework:	Budget 2017/18 Transformation and Future Council (Sustainable Swansea –fit for the future)
Consultation:	Cabinet Members, Corporate management Team, Legal Services and Access to Services.
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 2017/18, including the latest assessment of the delivery of savings.
- 1.2 In respect of Revenue Budgets, this report provides a consolidated forecast which combines:
 - projected variations (mainly shortfalls) in relation to budget savings agreed by Council in February 2017

- Variations arising from other service pressures not directly linked to specific savings plans (e.g. increased demand)

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 2017/18 and the forecast variation at this time.

2.2 Other than projected variations on Directorate expenditure, it is still too early to forecast variations that may arise on some significant Corporate items including the level of Council Tax collection (although it more often than not achieves a modest surplus) – it is assumed at the current time that these remain largely as per the approved budget.

2.3 The overall Directorate position is summarised below:-

DIRECTORATE

	FORECAST VARIATION 2017/18 £000	SAVINGS VARIATION 2017/18 £000	OTHER VARIATION 2017/18 £000
CORPORATE SERVICES (inc. all Business Support)	1,900	1,650	250
PEOPLE - POVERTY AND PREVENTION	-130	0	-130
PEOPLE - SOCIAL SERVICES	5,770	3,917	1,853
PEOPLE – EDUCATION	275	0	275
PLACE	0	3,600	-3,600
<u>NET DIRECTORATE EXPENDITURE</u>	7,815	9,167	-1,352

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

2.5 Within the *Sustainable Swansea* Delivery Programme, work continues to develop service delivery plans that will include all savings requirements across all strands. This includes the cross cutting nature of new reviews as well as the completion of current in-flight reviews.

2.6 The above potential overspend remains a significant risk and needs to be addressed on a whole Council basis as it is unlikely at the present time that alternative savings will be deliverable within budgets. A number of the overspend items follow on from the outturn position for 2016/17 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 Corporate Management Team has re-enforced the current arrangements for budget monitoring in particular :-

- focus on corrective action;
- increased control;

2.8 Offsetting opportunities do exist to ameliorate some of the identified service pressures, totalling at least £0.5m, as follows.

- Some £1m was set aside in the budget for the potential costs relating to the impact of the Apprenticeship Levy. The final costs relating to this levy will only be known once final employee related costs are calculated at the year end. Based on the initial costs for the first half of the year it is likely that the entire allocation will be required as a minimum. Should this not be the case then any saving will be proposed to be used to further mitigate service pressures.
- In setting the budget for 2017-18 it was anticipated that several specific grants could be reduced as part of the overall funding package from Welsh Government and a contribution to the reserve established in 2016-17. In the immediate aftermath of the “Brexit” result of the EU referendum, there are ongoing future uncertainties over long term wider grant funding . The budgeted contribution in 2017-18 is £0.946m resulting in a balance currently of £2.29m in the reserve. Should all of this in year contribution , or the reserve, not be required then it could be utilised to offset , as a one off , an element of the current potential overspend for 2017-18. At this stage it is assumed that a minimum of £0.5m will be available to partially mitigate the forecast overspend.

2.9 Conversely, it should be noted that on basis of bids already committed to the Council’s existing Transformation Fund reserve this remains wholly committed and cannot therefore be used to fund further transformative work unless and until monies advanced for existing plans start to crystallise additional and significant savings to pay back to the fund, not merely help unlock already planned budgeted savings.

3. Contingency Fund Provision for 2017/18

3.1 There is no carry forward of previous years underspends into the contingency fund for 2017/18. As such the contingency fund is set at the £5.4m contribution set out in the budget report approved by Council on 23rd February 2017.

3.2 The current potential calls on the contingency fund for 2017-18 are:-

Contingency Fund 2017/18	Prediction
	2017/18 (£m)
Contribution for year	5.400
Balance to fund ER/VR	-3,314
Community Budgets	-44
Part Reinstatement of Parks Savings	-47
Pathologists	-136
DoLS legal	-63
City Deal – CCC top slice	-50
DoLS Social Services	-285
Legal IGU	-10
City Centre Regeneration team	-450
Social Services procurement	-80
PSB support	-14
Waste vehicle replacement underwrite	-237
Interim arrangements – finance and service centre	-20
Swansea market initiatives	-75
External advice on rescheduling debt	-75
Corporate Building Services additional back-pay	-500
Balance 31st March 2018	Nil

The above table lists potential calls on the budgeted contingency fund . The final amounts will be dependent on a number of factors during the year including speed of implementation, actual costs/commitments incurred , final Directorate outturn position. Updates will be provided during the financial year as part of the routine quarterly reporting to members

Any departures under ER/VR in 2017-18 will again be charged to the contingency fund as a one off cost to release future revenue savings. It would be prudent given the experience in 2016-17 and the accelerated budgetary savings pressures likely to bear upon the authority to assume the in year call on the contingency for the purposes of funding ER/VRs to be at least £7m, even at this half year stage. This amount clearly exceeds the current amount available in the contingency fund as detailed above. Therefore, any excess cost will fall to the Restructuring Reserve. At this juncture it is likely that some further £3.5m, as a minimum ,will be required from this reserve in 2017-18.

- 3.3 The initial scale of potential overspends for 2017/18 are significantly in excess of any potential sums available to offset that shortfall. The current indication is that there still needs to be urgent and decisive action to pursue additional savings across the Council if an overall balanced budget is to be achieved.
- 3.4 The action being taken includes working through existing plans on an accelerated delivery basis :

- Management and Business Support Review: ongoing comprehensive review of the management structure across the Council and future requirements given the Council's priorities, future challenges and the changing nature of the role of managers
- Reducing the Pay Bill: review of options to reduce employee costs across the Council as part of our overall future workforce strategy (subject to trade union consultation at the appropriate time)
- Commercialism through third party Procurement Savings and Income Generation: review of further options to increase income from fees and charges, trading etc, in addition to the targets already set for 2017/18
- Progressing Commissioning Reviews and Cross Cutting Themes.
- Implementation of the Leading Learners transformation programme for Education that outlines a range of projects.
- Further implementation of the Adult Services Saving Plan through which we have identified mechanisms for bringing down overall costs.
- Strengthening and tightening further the extant spending restrictions which have been reviewed, refreshed and reissued by Corporate Management Team in October.

3.5 It should be noted that at this time, although the Council continues to pursue a number of VAT related claims, and some are more advanced than others, there is NO certainty of substantial windfalls from VAT refunds or any other external source being received in the current year.

4. Revenue Budget Summary

4.1 The position reported above reflects the best known current position. A net £7.8m of shortfall in revenue budgets, offset by, a one off, £0.5m of identified additional savings. This leaves a forecast overall £7.3m overspend forecast for the year at the end of the second quarter.

4.2 Corporate Management Team 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 As previously mentioned, it is too early to provide an accurate forecast as to the potential outturn on Corporate items such as Council Tax collection which is in itself potentially affected by the effects of welfare reform measures, but offset by an increasing tax base.

4.4 Included in the projected budget for 2017/18 for other Corporate items were budgeted increases in capital finance charges, recognising the need to commence funding for the ambitious Capital Programme. At Quarter 2, it would be prudent to report a £2m underspend on the projected budget. However noting the projected upward pressure on interest rates in the coming months, and the ongoing scale of likely capital investment, which in the case of the City Deal is likely to be significantly in advance of grant part funding, it is prudent to commit this £2m underspend to an equalisation reserve to deploy when capital is ultimately drawn down and needs to be serviced.

4.5 The overall judgement at this point is that there is an urgent need to identify significant additional budget savings across all Council Services if a balanced outturn for

2017/18 is to be achieved. In forming this view it is noted that this is an increase in the forecast overspend position when compared to the first quarter . Whilst historically the second quarter has always indicated an improved position when compared to the first quarter.

- 4.6 There remains a degree of confidence that further inroads can be made into the forecast overspend position by ongoing management and member action. Equally the scale remains such, that it would be on balance very unlikely that spending can be fully contained in year.
- 4.7 Furthermore there are increasing risks around building general inflationary pressures and the potential for feed through effects to current and future public sector pay awards which are set at national level (e.g; recent settlements for firefighters and teachers) which if not fully felt in terms of impact in the current year will further add to spending pressures in next year's budget, especially if, as looks likely, not directly funded by any increased government grant support.
- 4.8 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis. As there is no improvement in the overall forecast compared to the first quarter forecast additional measures, as set out above, have been implemented in order to seek to move closer to a balanced budget for 2017/18.

Capital Budget

5.1 Expenditure to 30th September 2017 is £36.79 million, summarised as follows:

Directorate	Budget 2017/18	Actual to 30/09/17 *	% spend
Corporate Services	2,785	705	25.3%
People	12,768	4,631	36.3%
Place (General Fund)	50,202	11,714	23.3%
Place (HRA)	61,679	19,740	32.0%
Total	127,434	36,790	28.9%

Expenditure on major schemes is detailed in Appendix C.

* Figures based on actual spend and therefore may only have 4 or 5 months costs relating to external invoices.

6. Housing Revenue Account

- 6.1 The additional revenue costs resulting from work undertaken with regard to fire safety will be met from existing budgets. There are no other material budget issues to flag at this stage of the year.
- 6.2 The additional capital costs relating to the installation of sprinklers in high rise blocks will be met from savings on other capital schemes.

6.3 Current forecasts in relation to the capital spend on the Housing Revenue Account indicate that there is likely to be slippage in the original budgeted spend from 2017/18 into later years. This will result in a reduction in the actual capital charges compared to the original budget. Any such reductions will result in lower than anticipated borrowing costs, and as a result a reduction in the actual HRA reserves required to be used in 2017/18.

7. Legal Issues

7.1 There are no legal issues contained within this report.

8. Equality issues

8.1 The Revenue budget of the Council was approved following the application of the corporate Equality Impact Assessment(EIA) process throughout the Budget setting process. It is essential where service levels are affected by changes to the Revenue Budgets (including savings options) that the EIA process (alongside consultation and engagement as appropriate) is applied to ensure due regard is paid to the potential equality impacts of any proposals prior to decision making.

Background papers: - None

Appendices:

- Appendix A – Revenue Budget forecast 2017/18
- 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 2017/18

<u>DIRECTORATE</u>	BUDGET 2017/18 £000	PROJECTED 2017/18 £000	VARIATION 2017/18 £000
CORPORATE SERVICES	44,036	45,936	1,900
PEOPLE - POVERTY AND PREVENTION	6,527	6,397	-130
PEOPLE - SOCIAL SERVICES	103,070	108,840	5,770
PEOPLE - EDUCATION	164,372	164,647	275
PLACE	51,302	51,302	0
<i>NET DIRECTORATE EXPENDITURE</i>	369,307	377,122	7,815
SPECIFIC PROVISION FOR APPRENTICESHIP LEVY	1,000	1,000	0
<i>OTHER ITEMS</i>			
LEVIES			
SWANSEA BAY PORT HEALTH AUTHORITY	84	84	0
CONTRIBUTIONS			
MID & WEST WALES COMBINED FIRE AUTHORITY	12,275	12,275	0
<i>CAPITAL FINANCING CHARGES</i>			
PRINCIPAL REPAYMENTS	15,316	14,316	-1,000
NET INTEREST CHARGES	15,893	14,893	-1,000
<i>NET REVENUE EXPENDITURE</i>	413,875	419,690	5,815
<i>MOVEMENT IN RESERVES</i>			
GENERAL RESERVES	0	0	0
EARMARKED RESERVES	4,522	6,022	1,500
<i>TOTAL BUDGET REQUIREMENT</i>	418,397	425,712	7,315
DISCRETIONARY RATE RELIEF	400	400	0
<i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i>	418,797	426,112	7,315
COMMUNITY COUNCIL PRECEPTS	965	965	0
<i>TOTAL REQUIREMENT</i>	419,762	427,077	7,315
<i>FINANCING OF TOTAL REQUIREMENT</i>			
REVENUE SUPPORT GRANT	231,170	231,170	0
NATIONAL NON-DOMESTIC RATES	79,531	79,531	0
COUNCIL TAX - CITY AND COUNTY OF SWANSEA	108,096	108,096	0
COUNCIL TAX - COMMUNITY COUNCILS	965	965	0
<i>TOTAL FINANCING</i>	419,762	419,762	0

Directors comments on budget variances

Appendix 'B'

Director of Corporate Services

Variance	£000	Explanation and Action
<u>Savings Variation</u>		
<i>Comms & Consultation :</i>		
Creation of a single Comms & Marketing function.	100	This saving has been reviewed since the last quarter and new arrangements put in place. The saving will be achieved by the 31 st March through remedial plans being implemented immediately by the Director.
<i>Performance :</i>		
Consolidation of Performance reporting functions : Council wide	115	This saving has been reviewed since the last quarter. The saving will be achieved by the 31 st March through remedial plans being implemented immediately by the Director.
<i>Sustainable Swansea (Directorate Target) :</i>		
Business Support	1,000	As highlighted in the last quarterly report, Directors have been working together to ensure a corporate approach to Business Support, including how this target can be met through federated delivery of the Business Support model and associated savings. The project plan also contains other areas of transformation to deliver the saving including: Vacancy and contract management, savings as a result of changing the way the Council works with suppliers, in a way which helps both parties. Pilots are already started and the saving will be achieved by the 31 st March through remedial plans being implemented immediately by the Director.
Senior Staff savings	435	The Directorate has identified where savings need to be made across Services. The timing of delivery has been the main issue. Plans are in place to ensure the savings can be met in year.
<u>Other Variation</u>		
2016-17 workstream savings un-achieved . Training, Lean Systems & Terms & Conditions	250	The Directorate has identified where savings targets have not been achieved and carried forward. Some of the savings have not been achieved due to timing, where others are as a result of changes in the environment. The

		Directorate is planning when and how savings will be met in year through the Performance & Financial Monitoring meetings.
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The Director and Corporate Services Management Team are working on increasing the pace of projects, taking immediate actions to ensure the £1.9m is actioned and fully in train by the 31st March. If achieved, this should ensure no ongoing overspend going into 2018-19, although it would be unlikely that anything other than a partial inroad could be made to 2017-18 in year overspending.

Director of People

Social Services

Variance	£000	Explanation and Action
Savings Variation		
Review of contracts and efficiencies	170	Work in this area has had some success, but further detail remains
Use of Direct Payments	570	Challenging targets have been set for the use of Direct Payments as an alternative to more traditional services.
Additional Income	810	Increased charges and robust processes have had a positive effect on the department's income levels. It is very early in the year to make a judgement on the level of success of such measures and it is hoped that evidence of significant improvement will continue over the coming months.
Domiciliary Care – Reduction in use of double handed calls	500	Work in this area is projected to achieve significant in year savings although a deficit remains.
Outcome based assessments	700	Savings will be achieved due to ongoing Western Bay work. All opportunities for further savings will be reviewed although the pressure of cases coming through transition remains.
Maximising Health Contributions to Packages of Care	529	Work to achieve this is ongoing, although it must be recognised that our Health Partners are in a similar financial position and have similar aims for this area
Child and Family - Safer LAC Reduction	638	Whilst the Safer LAC reduction scheme remains a success story for the Department, an increase in certain placement types combined with a reduction in placements with an element of cost recovery presents a pressure.
Other Pressures		
External Domiciliary Care	918	These areas are exposed to both demographic and cost pressures. Work to ensure all placements are appropriate and cost effective continues with commissioning reviews pending.
External Residential Care	607	
Internal Staffing and Services	-391	Whilst an underspend is currently expected, work will continue to identify further savings

		opportunities The underspend is partially offset by pressures within the Community Equipment Service
MHLD Complex Care	1,180	This is a continuation of the previous year's overspend and remains an area of significant pressure
Looked After Children and Special Guardianship Orders	467	This is a continuation of the unachieved saving above.
Balance Sheet Adjustment	-928	A review of the balance sheet provides a one off opportunity to use dormant balances to support the current year's revenue position.

The Social Services position is primarily due to structural budget issues and large shortfalls in planned savings for the year.

Education

Variance	£000	Explanation and Action
Continuing pressures from 2016-17		
One to One - Special Schools / Specialist Teaching Facilities	480	Delegation of one to one support for Special Schools under consideration for April 2018 but some pressures will continue and require tighter oversight and scrutiny to confirm underlying trends
Structural Budget Pressures	17	Ongoing issues carried forward from the previous financial year
Special Needs Transport Costs	325	This remains the most significant area of concern as it is inherently volatile and effectively uncontrollable and expectations continue to be raised by Welsh Government and through legal challenges
Non-Delegated Cost Pressures	240	Tighter monitoring and scrutiny of these areas may mitigate the pressures to some extent
Unachievable allocated corporate targets from 2016-17	205	Pro rata allocation of corporate savings targets remain undeliverable (Corporate terms & conditions, LEAN, Training etc.) and will require alternative savings to be identified in addition to existing Education specific MTFP targets. Cloud savings are still to be delivered by corporate IT and remain a further risk.
Total Pressures	1,267	
Continuing managed savings from 2016-17	-451	Mitigation of pressures by continuing impact of robust scrutiny of spending across all service areas
Further anticipated managed savings	-541	Additional anticipated but largely one-off savings
Total Managed Savings	-992	

Net Budgetary Pressures still to be contained	275	Non-delegated budgets and spending will continue to be scrutinised to as far as possible offset pressures
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There are further areas of uncertainty, particularly the level and cost of Out of County places which remains inherently volatile, the impact of the new model of EOTAS provision, and the impact of any further backdating of increases in business rates on school premises.

Poverty & Prevention

Variance	£000	Explanation and Action
Tackling Poverty Unit	-50	Delay in recruitment & restructure from Tackling Poverty Unit to new Adult Prosperity and Wellbeing Manager has contributed to this underspend. This will be rectified during Q3
Child and Poverty Projects	-80	This budget is in place to support Child Poverty Projects as need arises. Grant funds are utilised fully in replace of core spend in this area, therefore there has been no significant call on this budget to date.

Work is ongoing around ensuring budgets are profiled to maximise use of grant and ensure no overspends in service area. All savings for 17/18 have been applied to budgets and are on track to be achieved.

Director of Place

Variance	£000	Explanation and Action
Savings Variation		
Cefn Hengoed	100	Budget removed, remains in operation by Leisure
Plantasia	100	Unachieved RAG savings as remains in operation.
Parks	70	Reduction in seasonal staff – not implemented.
Cleansing	50	7 day working – delay in introduction.
CB&PS – Develop mobile working and technological support	100	Delay in IT implementation
CB&PS – Asset reductions in line with commissioning reviews	200	Budget reductions over the last two years have been made on the basis of assets reductions in line with commissioning reviews, these have not been realised and therefore projected over spend is forecast.
Senior Staff Review	171	Unachieved saving due to “double counting” commissioning review savings in Culture and Leisure
Depot Saving	250	Unachieved saving due to delay in securing alternative premises now identified
T&C's	375	Unachieved saving as no changes made to

		corporate T&Cs
Commercial	1,150	Unachieved saving/savings achieved under individuals commissioning reviews
Total Savings	2,566	
Other Pressures		
Park & Ride	300	Income shortfall and Bus Operator overspend.
Bridges & Structures Team	100	Income shortfall
Highways Recycling	100	Termination of recycling arrangement
CTU	170	Pay & Grading and ageing fleet costs
Highways back pay	164	Costs to be borne by Service – no corporate budget available
Waste Management	200	Vehicle Maintenance/Hire overspend less Landfill Tax underspend
Total Other Pressures	1,034	
Mitigation		
CB&PS – general underspends	-300	Guildhall, Mail Room, Corporate Cleaning and Corporate Properties.
Overlap budgets	-1,393	Overlap across the various Sustainable Swansea work strands.
RSG Homelessness Prevention	-500	Underspend of grant
Transport Support	-180	Underspend on Community Transport, Concessionary Fares and surplus income.
Other general underspends	-292	Various other underspends across Place
Total Mitigation	-2,665	
Latest year end forecast overspend	-935	

The current projection is an overspend of £935k at end of month 5 which is being used to assess 2nd Quarter out-turn. However Heads of Service have been tasked in identifying options to offset the anticipated £935k overspend and return a balanced budget at year end and progress will be reported via the third quarter report.