

Report of the Cabinet Member for Service Transformation & Business Operations

Cabinet - 17 August 2017

REVENUE AND CAPITAL BUDGET MONITORING 1ST QUARTER 2017/18

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|------------------------------------|---|
| 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 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 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 June 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 too early to forecast variations that may arise on significant Corporate items including Capital charges and the level of Council Tax collection – 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:-

| <u>DIRECTORATE</u> | 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 | -20 | 0 | -20 |
| PEOPLE - SOCIAL SERVICES | 4,994 | 3,872 | 1,122 |
| PEOPLE - EDUCATION | 341 | 0 | 341 |
| PLACE | 0 | 0 | 0 |
| <u>NET DIRECTORATE EXPENDITURE</u> | 7,215 | 5,522 | 1,693 |

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 is 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 months 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 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 | -3,464 |
| 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 |
| 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 early stage in the year. 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, in line with previous years first quarter monitoring, is that there 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.

3.5 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, very early in the financial year, which introduces a degree of greater risk in the estimates necessarily made. A net £7.2m of shortfall in revenue budgets, offset by, a one off, £0.5m of identified additional savings. This leaves a forecast overall £6.7m overspend forecast for the year at the end of the first 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 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 a similar, but larger first quarter overspend position was forecast at broadly the same stage last year, that action was taken in year to address the gap entirely last year, indeed achieving a slight overall under spend, albeit predominantly on a one off basis, and that nevertheless there are ongoing over spend pressures in Social Services and Education.

4.5 Consequently there is a degree of confidence that further inroads can be made into the forecast overspend position by ongoing management and member action.

4.6 Set against this 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. fire, 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 not directly funded by increased government grant support.

4.7 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 2017/18.

Capital Budget

5.1 Expenditure to 30th June 2017 is £14.192 million, summarised as follows:

| Directorate | Budget 2017/18 | Actual to 30/06/17* | % spend |
|----------------------|---------------------------|--------------------------------|----------------|
| Corporate Services | 2,307 | 538 | 23.3% |
| People | 18,441 | 3,603 | 19.5% |
| Place (General Fund) | 45,465 | 3,389 | 7.5% |
| Place (HRA) | 61,674 | 6,662 | 10.8% |
| Total | 127,887 | 14,192 | 11.1% |

Expenditure on major schemes is detailed in Appendix C.

* Figures based on actual spend and therefore may only have 1 or 2 months costs relating to external invoices.

6. Housing Revenue Account

6.1 Other than any additional costs which may arise as a result of immediate assurance and reassurance work, and further potential work undertaken with regard to fire safety measures there are no other material budget issues to flag at this stage of the year.

6.2 The actual level of any revenue costs arising from the totality of fire safety measures and assurance work will depend on final options worked up. Costs will be reported in due course in year of which some may accrue against the General Fund.

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 1 2017/18

| <u>DIRECTORATE</u> | BUDGET 2017/18 £000 | PROJECTED 2017/18 £000 | VARIATION 2017/18 £000 |
|--|------------------------------------|---------------------------------------|---------------------------------------|
| CORPORATE SERVICES | 42,946 | 44,846 | 1,900 |
| PEOPLE - POVERTY AND PREVENTION | 6,136 | 6,116 | -20 |
| PEOPLE - SOCIAL SERVICES | 103,849 | 108,843 | 4,994 |
| PEOPLE - EDUCATION | 164,716 | 165,057 | 341 |
| PLACE | 51,294 | 51,294 | 0 |
| <i>NET DIRECTORATE EXPENDITURE</i> | 368,941 | 376,156 | 7,215 |
| 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 | 15,316 | 0 |
| NET INTEREST CHARGES | 15,893 | 15,893 | 0 |
| <i>NET REVENUE EXPENDITURE</i> | 413,509 | 420,724 | 7,215 |
| <i>MOVEMENT IN RESERVES</i> | | | |
| GENERAL RESERVES | 0 | 0 | 0 |
| EARMARKED RESERVES | 4,888 | 4,388 | -500 |
| <i>TOTAL BUDGET REQUIREMENT</i> | 418,397 | 425,112 | 6,715 |
| DISCRETIONARY RATE RELIEF | 400 | 400 | 0 |
| <i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i> | 418,797 | 425,512 | 6,715 |
| COMMUNITY COUNCIL PRECEPTS | 965 | 965 | 0 |
| <i>TOTAL REQUIREMENT</i> | 419,762 | 426,477 | 6,715 |
| <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 |

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 is under review with the CEO and Members following the restructure. The target still needs to be met but will be considered alongside changes within the Business Support project |
| <i>Performance :</i> | | |
| Consolidation of Performance reporting functions : Council wide | 115 | This is under review by the new Interim Director as part of establishing a corporate approach to Business Support and the new Strategic Delivery Unit. This does not mean the target will not be met but requires alignment with new Policy commitments and revised Corporate Priorities |
| <i>Sustainable Swansea (Directorate Target) :</i> | | |
| Business Support | 1,000 | 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 |
| 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 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. |

Business Support savings targets all currently appear under the Corporate Services directorate. Some £1million of the overall target is currently under discussion with both the Place and People Directorates in terms of being delivered via federated approach and “mini hubs”. The benefit of this approach is that it will ensure corporate consistency without losing Service focus. However the scale of the work is significant to achieve in the current financial year. If such savings are unrealised then there will be a potential shortfall of the £1m, which remains for now budgeted under Corporate Services. Given the overall financial position of the Council the Directorate will continue to identify further savings opportunities on an on-going basis and report accordingly.

Director of People

Social Services

| Variance | £000 | Explanation and Action |
|--|------|---|
| Savings Variation | | |
| Review of contracts and efficiencies | 195 | Work in this area has had some success, but further detail remains |
| Use of Direct Payments | 550 | 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 | 450 | 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 | -631 | Whilst an underspend is currently expected, work will continue to identify further savings opportunities |
| MHLD Complex Care | 794 | This is a continuation of the previous year's overspend and remains an area of significant pressure |
| Looked After Children and Special Guardianship Orders | 362 | 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. Significant work will be undertaken to improve the position regarding planned savings in the coming months.

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 |
| 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 | 190 | 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 | 1,200 | |
| Continuing managed savings from 2016-17 | -434 | Mitigation of pressures by continuing impact of robust scrutiny of spending across all service areas |
| Further anticipated managed savings | -425 | Additional anticipated but largely one-off savings |
| Total Managed Savings | -859 | |
| | | |

| | | |
|--|------------|---|
| Net Budgetary Pressures still to be contained | 341 | Non-delegated budgets and spending will continue to be scrutinised to as far as possible offset pressures |
|--|------------|---|

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, the final settlement figure for the transfer of Employment Training which is still to be agreed, 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 | -20 | Delay in recruitment & restructure to new Adult Prosperity and Wellbeing Manager (to be in place by Q2) |
| | | |

At this stage no further over/underspends to report. 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

There are some carried forward unachieved savings in relation to Terms & Conditions and Commercial Services although these will be offset by Commissioning Review savings and adjustments to reflect overlaps across the various Sustainable Swansea work strands. In relation to the Depot savings the project has been delayed but is expected to be completed during 2017/18 although as the exact date relies on acquisitions the full 'overspend' will be shown until this is clarified. Notwithstanding the above, an area of likely underspend relates to the inclusion of an allocation from WG for homelessness prevention at £741k. Many of the initiatives will take some time to implement meaning an underspend during 2017/18; however options are being looked at to offset this which will be reported via the second quarter report.