| 14 December 2016 | ITEM: 14<br>(Decision 01104394) |
|---|---|
| **Cabinet** | |
| **Medium Term Financial Plan - Quarter 2** | |
| **Wards and communities affected:**<br>All | **Key Decision:**<br>Key |
| **Report of:** Councillor Shane Hebb, Portfolio Holder for Finance and Legal Services | |
| **Accountable Head of Service:** Sean Clark, Director of Finance and IT | |
| **Accountable Director:** Sean Clark, Director of Finance and IT | |
| **This report is** public | |


**Executive Summary**

This report provides an update on the forecast 2016/17 outturn position as at the end of September 2016.

Previous reports have shown that the Council has had to meet considerable financial pressures, most significantly due to demand within Children's Social Care, but that this has been largely mitigated.

Whilst this forecast still shows a projected deficit, officers are confident that continuing action will keep the budget within the agreed budget envelope.


**1. Recommendation(s) That Cabinet:**

**1.1 Note the forecast outturn position for 2016/17 and the mitigation required in order to manage existing pressures; and**

**1.2 Agree the funding of £0.190m to extend the Clean it, Cut it, Fill it initiative to 31st March 2016**

**2. Introduction and Background**

2.1 In February 2016, Council agreed the General Fund budget for 2016/17 as part of the MTFS. Whilst no additional budget savings to front line services were proposed, the 2016/17 budget does include previously agreed savings of £3.391m (see Appendix 1). In addition to this, income growth of £0.775m was agreed as part of the fees and charges report at February 2016 Cabinet. Current forecasts indicate that £2.611m of the £3.391m savings target will be delivered with the balance contributing to the in-year pressures.

2.2 Current projections indicate an over spend of £0.240m. Achieving this position is dependent on in-year mitigating action of £4.531m being delivered to manage existing financial pressures and further mitigation being identified to be within budget by the end of the year.

2.3 The most significant pressure is within Children's Services and the current forecast shows a worsening position. In addition, Cabinet should note that there continues to be risks due to ongoing demand pressures within Adults' Social Care and Environmental Services. Mitigation includes managing demand, further income generation, improving efficiency and reducing non-essential spend.

2.4 To fully understand the difficulty of achieving this, Members need to consider this in the context of the pressures that have already been managed, including:

- £93m in savings delivered since 2010;
- Already having to deliver £3.4m in planned and agreed savings in 2016/17; and
- Managing other pressures within the services in-year.

2.5 The position includes the previously agreed additional spend of £0.260m to enable the 'Clean it, Cut it, Fill it' initiative for a pilot period of 3 months and a further £0.190m to extend the initiative to the end of the financial year. Officers will continue to work with the Cabinet in closing this gap but have identified the use of capitalising part of the Minimum Revenue Provision (MRP) budget to meet the costs of the pilot should it be necessary. Future funding requirements are included within the MTFS.

2.6 The table below summarises the net position by service area:

| **Service Area** | **Spend YTD £000** | **Full Year Budget £000** | **Forecast £000** | **Variance From Budget £000** | **Mitigating Action £000** | **Revised Variance £000** | **Variance Month 3 £000** | **Movement £000** |
|---|---|---|---|---|---|---|---|---|
| Adults, Housing & Health | 18,316 | 33,862 | 34,231 | 369 | (369) | **0** | 1,125 | (1,125) |
| Children's Services | 19,063 | 29,861 | 35,821 | 5,960 | (1,290) | **4,670** | 4,145 | 525 |
| Environment & Place* | 18,116 | 33,984 | 35,801 | 1,817 | (1,386) | **431** | 313 | 118 |
| Finance & IT | 5,721 | 10,273 | 10,273 | 0 | (561) | **(561)** | (400) | (161) |
| HROD | 3,268 | 7,892 | 7,892 | 0 | (375) | **(375)** | 0 | (375) |
| Legal Services | 1,285 | 2,192 | 2,192 | 0 | 0 | **0** | 0 | 0 |
| Commercial | 395 | 610 | 610 | 0 | (25) | **(25)** | 0 | (25) |

| Service Area | Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance From Budget £000 | Mitigating Action £000 | Revised Variance £000 | Variance Month 3 £000 | Movement £000 |
|---|---|---|---|---|---|---|---|---|
| Services | | | | | | | | |
| Central Expenses | 8,667 | 5,650 | 5,650 | 0 | (525) | **(525)** | (525) | 0 |
| Growth Allocation | 0 | 3,375 | 0 | (3,375) | 0 | **(3,375)** | (4,500) | 1,125 |
| **Total** | **74,831** | **127,700** | **132,470** | **4,771** | **(4,531)** | **240** | **158** | **82** |

* Figures within the Environment and Place line include an additional £0.450m for the Clean It, Cut It, Fill It pilot, including extending the initiative to end of the financial year. Officers will continue to work with the Cabinet in closing this gap but have identified the use of capitalising part of the Minimum Revenue Provision (MRP) budget to meet the costs of the pilot should it be necessary.

2.7 Whilst this shows an increase in net pressures of £0.158m over the last three months, this needs to be seen in the context of an additional £0.190m within Environmental Services and the increased pressures within Children's Services.

## 3. Issues, Options and Analysis of Options

### 3.1 Quarter 2 position

#### 3.1.1 Adults, Housing and Health

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 18,316 | 33,862 | 34,231 | 369 | (369) | 0 |

Adults, Housing and Health is forecasting a breakeven position after mitigating action. The position now reflects the allocation of £1.125m in respect of the ASC precept. Within the directorate, the budget for Adult Services is £33.201m and pressures of £0.369m have been identified. There is the usual demand led nature of the business to contend with, winter is approaching which could see a rise in hospital admissions and associated care packages following these periods of crisis. In addition, the service has had to allocate some additional resources to the Joint Reablement Team to meet increased referrals and some of the staffing concerns raised by the Care Quality Commission. The senior management team have examined the budget in detail and have introduced some corrective measures, such as a freeze on all non-essential posts, a deep dive into all mental health placements, reassessment of client contributions and negotiations with Health for continuing health care funding. However, given the ongoing pressures, particularly around the delivery of domiciliary home care, there is significant risk to the position.

The Housing service has an agreed General Fund budget of £0.661m and is forecasting to spend to budget. Homelessness presentations are being closely monitored and remain an area of potential risk. There are no major variances to report at present.

### 3.1.2 Children's Services

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 19,063 | 29,861 | 35,821 | 5,960 | (1,290) | 4,670 |

The projected pressure in Children's services has increased to £4.670m net of identified mitigating action of £1.290m. This is an increased forecast overspend, after reviewing the potential impact of proposed mitigating actions, though both the continuing increased demand and increase in the timeline of delivering the savings. The service is still working to deliver all the mitigating action, however at this point it is necessary to identify the slippage. The main pressures on budgets are due to the following:

- The cost of placements – external placements for children continue to be a pressure, where the cost of Independent Foster Care Agencies (IFAs) is still the major concern in common with the national position. Mitigating action is being taken to reduce spot purchasing of IFA placements and identify which children can be moved into lower need / cost placements, this work has achieved an assumed saving of £0.410m in year across placements including residential placements although demand may put pressure on this . A review of in-house foster care, through iMPOWER is looking at ways to increase the supply of in house providers as this will significantly reduce costs. It is however recognised that this will not be in place for an in year saving.

- High cost residential placement costs continue to be reviewed on a monthly basis and where safe to do so are reduced as the service focuses on achieving better value and more appropriate placements for young people. There a currently a number of specialist reviews taking place looking at whether a more bespoke service can be provided to larger sibling groups in residential care , to support better value as well as better individual outcomes.

- Pressures in staffing continue with the need to replace higher cost temporary staff with good quality permanent recruits. The service is currently reviewing the applications from the recent recruitment campaign which has had a good response. The service is working towards ensuring all agency staff are on the agreed Eastern region rates to reduce the incentives to move assignments between Local Authorities, and an initial sample of staff on higher rates are being written to and offered the lower rate or advised that their contracts will be terminated. Work to reduce other on social work agency staff in the directorate is already underway.

- There continues to be an increase in the number of unaccompanied asylum seekers supported in Thurrock with the numbers now exceeding 100. Whilst the Eastern regional protocol is in place this has to date seen no reduction in the number of young people supported by Thurrock. The forecast last month was looking at mitigation that would bring this down to the prescribed number of 28, however this is not likely to come to fruition in the next few months. Budgets were set with expected levels of UASC at 80 so the current levels represent a 25% increase in demand.

- Mitigation that has been delayed relates to staffing reorganisation, whilst the majority of planned reductions have been achieved some have either been deferred or true cost savings will not be met until next financial year due to redundancy costs. Also work to commission low cost supported accommodation for older UASC has been delayed as the proposed provider has pulled out of negotiations; work continues to find another interested party at the right price. This has meant delays in coming on stream until the New Year.

### 3.1.3 Environment & Place

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 18,116 | 33,984 | 35,351 | 1,367 | (1,386) | (19) |
| Clean it, Cut it, Fill it | 0 | 450 | 450 | 0 | 450 |
| | 33,984 | 35,801 | 1,817 | (1,386) | 431 |

The 2016/17 budget for Environment and Place is £33.984m. The service is managing significant pressures, however, following in-year mitigating action, is projecting an over spend of £0.431m. The position includes additional spend of £0.450m to enable the ‘Clean it, Cut it, Fill it’ initiative for the 3 month pilot plus extending to the end of the financial year.

The Directorate has an agreed savings target of £1.520m of which £0.740m is forecast to be delivered. The variance of £0.780m relates to savings on the Thameside building and reducing grounds maintenance operations.

**Environment:**
There is significant pressure within Environment, however, the service is working towards mitigating the position in-year. Current forecasts indicate an overspend including the cost of the Clean it, Cut it. This is primarily due to concerns that

delivering the full grounds maintenance saving would require further post and service reductions which the service do not feel are sustainable, additional cost in respect of additional town centre clean up requirements, changes to recycling contracts, additional procurement consultant spend and managing redundancy costs.

Proposed mitigating action is primarily through reviewing staff costs such as holding posts vacant, reviewing agency spend, route mapping for more efficiencies and achieving additional income through traded services.

There is an on-going review of enforcement services across planning, public protection, and highways to test for efficiencies and to strengthen the corporate enforcement function. Other options include a growth bid for new posts or employing specialist enforcement agencies which could result in a budget pressure.

**Highways and Transportation:**
At the end of period 5, the service is currently forecast to breakeven, however, there are a number of challenges that will need to be managed in order to achieve this. The new administration has ambitious plans for carriageway maintenance; however, there is insufficient provision within existing budgets, with the estimated cost of the pilot 'Fill it' initiative being £0.110m.

The council is likely to be required to fund development costs for Stanford-Le-Hope Interchange up front in order to release funding from partners. This is in the region of £0.500m and is expected to be funded through the subsequent release of funds. However, if this joint funding arrangement is not successful, this will create a pressure.

Service provision for network management is being reviewed in light of increasing demands on the network and stakeholder frustration with existing arrangements. Requests have been received for business cases to be developed for further infrastructure bids, for which no budget is currently available. The newly established Congestion Task Force and Thurrock Road User Groups are both generating Action Plans which will need to be resourced.

**Residents Services:**
Current projections indicate an overspend primarily due to the Library service with £0.100m overspend forecast following on from the £0.569m budget saving applied in 2015/16. A full review of the library service is underway that will set out a long term vision for library facilities in the Borough, taking full account of plans for hubs. A review of the library estate is the first priority for the Corporate Landlord responsibility. In year savings options are very limited and would have to be made by further reducing opening hours of some libraries and reducing the budget for new book acquisitions. Consultation may be required.

Additional pressures are emerging within Public Protection primarily due to legal costs from a successful prosecution. In addition to this, as service demands are made for which there are no budgets, these are not possible to recover from other budgets, these pressures are expected to continue to increase as corporate and political demands are made of the service. Shared service options are being explored that could result in some savings later in the year.

A review of income generation potential from the Registrars service is also planned which could increase income and lead to a small general fund saving, this is in addition to an increase in income expectations in 2016/17 of £0.070m which is already included in the budget.

**Regeneration and Assets:**
The service is forecasting to breakeven, however, this requires managing significant in year pressures. The main pressure within the service is in respect of the Thameside saving of £0.550m, of which £0.500m is at risk due to the continuing use of the building. Mitigation has been identified through a combination of rent and service charge income from the CCG for the space it occupies, additional income from former HRA shop rentals, scope to accelerate delivery of 2017/18 savings by bringing £0.100m forward, reviewing MFD spend and the introduction of the pay to park scheme for staff within the multi-storey car park. The previously planned income from VOSA (£0.043m from rent and service charges) will no longer be received; however alternative letting opportunities are being explored.

There is possibly further potential income through letting space in the Thameside on a commercial basis and letting additional space in CO1, however marketing is required and length of rental periods will be limited. Plans for CO1 need to be progressed and it will take time for schemes to be introduced.

Pressure exists in respect of the additional theatre income target of £0.075m. This represents a 15% increase on earned income. The Theatre has been working on a number of initiatives to increase income including improved marketing and promotion, reviewing pricing and promoting space for hire. While these initiatives are having some effect the theatre is forecasting risk of £0.060m at the end of the financial year.

**Planning and Growth:**
An underspend is currently forecast due to additional income through increases in personal searches and trading with other authorities. In order to avoid in year pressure, the amount of income generated will be reviewed throughout the year with activity varied to match it.

### 3.1.4 Finance & IT

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 5,721 | 10,273 | 10,273 | 0 | (561) | (561) |

Finance and IT are forecasting to underspend by £0.561m which will support the mitigation of council wide pressures. This is primarily through restructure savings of £0.250m within ICT, additional income within Fraud of £0.180m, an underspend of

£0.031m in Revenues and Benefits and £0.100m from other Finance services. Delivery will result in post reductions and is put forward as the first year target towards the 15-20% efficiency challenge. These savings are in addition to a further £0.250m ICT reduction allocated to the £1.200m Organisation Challenge savings target and the £0.150m agreed for Revenues and Benefits. Together, these represent a reduction on accountable budget circa 9%.

### 3.1.5 Human Resources and Organisational Development

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 3,268 | 7,892 | 7,892 | 0 | (375) | (375) |

HROD is forecasting to underspend by £0.375m in 2016/17. This relates to vacancies that existed earlier in the year and managing spend within training and corporate communications. The service is managing a pressure of £0.120m in respect of the Occupational Health service. The service was previously funded through the Public Health grant, however, reductions to the grant have resulted in a review of its use. The pressure is to be mitigated by increasing income and managing within wider HROD budgets.

Pressure is anticipated within the Communication budget due to funding an acting up allowance and backfilling through agency staff for sickness absence. It is anticipated that the pressure will be managed within wider service budgets and prioritising spend to remain within budget overall.

The service has an agreed savings target of £0.100m which is expected to be delivered through income generation activity including a roundabout sponsorship scheme and a more proactive approach to filming in the borough.

### 3.1.6 Legal Services

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 1,285 | 2,192 | 2,192 | 0 | 0 | 0 |

Legal Services are forecasting to spend to budget by year end. The Legal income target that increased by £0.250m in 2016/17, is becoming increasingly difficult to achieve.

To deliver the income target the shared legal service will need to deliver greater efficiencies and ensure the commercial viability of the shared service is fully utilised in areas of income generating work such as delivering legal services to other Councils and public sector organisations. The shared legal service has a record of delivery on income targets. A commercial review is now required to assess the viability of delivering this new target with consideration of any further efficiencies or enablers within the shared service model.

### 3.1.7 Commercial Services

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 395 | 610 | 610 | 0 | (25) | (25) |

The Commercial Services Directorate is forecasting to underspend by £0.025m which will support the mitigation of council wide pressures. This is through reductions in operational spend and recharging to public health for work carried out on significant contract procurements.

### 3.1.8 Central Expenses

| Spend YTD £000 | Full Year Budget £000 | Forecast £000 | Variance £000 | Mitigating Action £000 | Revised Variance £000 |
|---|---|---|---|---|---|
| 8,667 | 5,650 | 5,650 | 0 | (525) | (525) |

This budget covers a number of corporate expenditure items including treasury management costs (interest paid on loans and received from investments), the annual contribution to the Essex Pension Fund to meet current actuarial deficiency and allocation for MRP.

Projections indicate an underspend of £0.525m. This is from an expected benefit of £0.200m from an improved treasury position and £0.400m return on a joint LA Bond issued to the private sector for a renewable energy project. Although, this is partially offset by a loss of £0.075m from the discontinuation of the Local Services Support Grant from April 2016. Given the uncertainty in the markets following the EU Referendum result, the treasury position will need to be monitored closely.

The Central Expenses budget includes an allocation of £0.050m in respect of the Lower Thames Crossing proposal and £0.365m invest to save funding available to support initiatives geared towards enabling financial self-sustainability. In addition to this, £3.375m has been allocated towards managing council growth pressures.

### 3.1.9 Housing Revenue Account

| | Full Year Budget | Spend YTD | Forecast | Variance from Budget | |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **%** |
| Repairs and Maintenance | 12,602 | 5,559 | 13,448 | 846 | 6.71% |
| Housing Operations | 12,476 | 4,814 | 12,221 | (255) | (2.00%) |
| Financing and Recharges | 22,805 | 2,930 | 22,805 | 0 | 0.00% |
| Rent and Income | (48,426) | (21,472) | (48,226) | 200 | (0.40%) |
| Development | 542 | 525 | 243 | (299) | (55.20%) |
| **Total** | **0** | **(7,644)** | **491** | **491** | |

The Housing Revenue Account budget, agreed by Cabinet in February 2016, is forecasting an over spend of £0.491m for 2016/17. If not fully managed in year this pressure will result in drawing down on HRA reserves which are already at the agreed minimum level. The senior management team are reviewing proposals to mitigate and manage the forecast pressure by the end of the year.

**Repairs & Maintenance**
The service is forecasting an over spend of £0.846m. Increased overhead costs of £0.135m relating to Mears Contracts have been included in the forecast for September along with £0.200m for boiler installations as a result of unforeseen boiler failures that were not budgeted for. These pressures will be managed by savings within Housing Operations.

The exclusions budget is forecasting an overspend of £0.450m due to increased call on the budget for external works as the Transforming Homes programme has been reprofiled. A full detailed review of the forecasts in this area was carried out for the September position resulting in a positive movement from previous estimates.

**Housing Operations**
The service is forecasting an under spend of £0.255m. Budget savings and efficiencies through holding vacancies and managing spend are expected to contribute to mitigating the pressure within Repairs and Maintenance. However, the mitigation is reduced due to delays in letting properties on Seabrooke Rise and Derry Avenue which has resulted in increased costs relating to Council Tax on void dwellings.

**Rent & Income**
There is a forecast overspend of £0.200m due to delays in letting properties on Seabrooke Rise and Derry Avenue hence the loss of rental income to the HRA. The current rent collection rate on income due as at the end of September is 93.6% against a target of 92%.

**Development**
The forecast underspend of £0.299m is as a result of New Build Schemes moving into more established phases requiring reduced call on the revenue budget to support them.

## 4. Reasons for Recommendation

4.1 The Council has a statutory requirement to set a balanced budget annually. This report sets out the budget pressures in 2016/17 along with actions to mitigate these pressures and deliver a breakeven position.

## 5. Consultation (including Overview and Scrutiny, if applicable)

5.1 The budget planning governance structure includes involvement and consultation with Officers, Portfolio Holders and Members. Overview and Scrutiny committees considered proposals during October to December with public consultation undertaken where required.

## 6. Impact on corporate policies, priorities, performance and community impact

6.1 The implementation of previous savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings and mitigation may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

## 7. Implications

### 7.1 Financial

Implications verified by: **Carl Tomlinson**

**Finance Manager**

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

7.2 **Legal**

Implications verified by: **David Lawson**

**Deputy Head of Law & Governance**

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

7.3 **Diversity and Equality**

Implications verified by: **Becky Price**

**Community Development and Equalities**

There are no specific diversity and equalities implications as part of this report.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

**8. Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- n/a

**9. Appendices to the report**

- Appendix 1 – 2016/17 Savings Tracker

**Report Author:**

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Finance Manager

Finance and IT