7 September 2016	ITEM: 11 Decision 01104380

Cabinet
Quarter 1 Revenue Budget Monitoring and Council Spending Review Update

Wards and communities affected: All	**Key Decision:** Key
Report of: Councillor Shane Hebb, Portfolio Holder for Finance & Central 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 June 2016 and summarises the main changes to the MTFS for the period 2017/18 through to 2019/20.

The report also sets out the governance structure for the Council Spending Review and Transformation Programme, including the budget planning table enabling agreement of the budget in February 2017.

1 Recommendation(s)

1.1 That Cabinet note the forecast outturn position for 2016/17 and agree that £1.125m of the growth allocation be vired to Adults, Housing and Health in line with the Adult Social Care Precept;

1.2 That Cabinet agree the funding of £0.260m for the Clean it, Cut it, Fill it pilot;

1.3 That Cabinet note the revised MTFS position, including any adjustments for an increase to the General Fund Balance;

1.4 That officers bring forward savings in excess of the MTFS forecast deficit to give Members choice around further investment initiatives, such as the Clean It, Cut It, Fill It initiative of Summer 2016; and

1.5 That Cabinet agree the Council Spending Review approach and timetable.

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 A). 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.

2.2 The table below shows that pressures of £8.623m have been identified and, with a growth allocation of £4.500m, required mitigating actions to be identified for the balance of £4.123m.

2.3 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:

2.3.1 £93m in savings delivered since 2010;

2.3.2 Already having to deliver £3.4m in planned and agreed savings in 2016/17; and

2.3.3 Managing further pressures within the services in-year.

2.4 Current projections indicate a net over spend of £0.158m. Achieving this position is dependent on in-year mitigating action of £3.965m being delivered to manage existing financial pressures of £4.123m. The most significant pressure is within Children's Services. There continues to be risk in achieving this with ongoing demand pressure within Adults' and Children's Services causing significant financial pressure. Proposals include managing demand, further income generation, improving efficiency and reducing spend.

2.5 The position includes additional spend of £0.260m to enable the 'Clean it, Cut it, Fill it' initiative for a pilot period of 3 months funded through a one-off adjustment to the in-year funding of MRP. The pilot will then be used to determine any future funding required and the MTFS adjusted accordingly.

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
Adults, Housing & Health	9,021	32,271	33,748	1,477	(352)	1,125
Children's Services	18,195	29,630	35,167	5,537	(1,392)	4,145
Environment & Place*	5,948	34,455	35,944	1,489	(1,176)	313
Finance & IT	3,185	10,268	10,268	0	(400)	(400)
HROD	1,670	7,881	8,001	120	(120)	0
Legal Services	695	2,192	2,192	0	0	0
Commercial Services	214	610	610	0	0	0
Central Expenses	1,037	7,015	7,015	0	(525)	(525)
Growth Allocation	0	4,500	0	(4,500)	0	(4,500)
Total	**39,965**	**128,822**	**132,945**	**4,123**	**(3,965)**	**158**

2.7 * Figures within the Environment and Place line include an additional £0.260m for the Clean It, Cut It, Fill It pilot. 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.

3 Issues, Options and Analysis of Options

3.1 Quarter 1 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
9,021	32,271	33,748	1,477	(352)	1,125

Adults, Housing and Health is forecasting an over spend of £1.477m before any mitigation. Within the directorate, the budget for Adult Services is £31.610m and further pressures of £0.352m have been identified at the end of Quarter 1. These have arisen through six extra dementia placements in June and two expensive learning disability placements. In addition, the service has had to allocate some additional resources to the Joint Reablement Team to meet 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. However, it is important to note that the service is now forecasting a worsening 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 during 2016/17.

3.1.2 Children's Services

Spend YTD £000	Full Year Budget £000	Forecast £000	Variance £000	Mitigating Action £000	Revised Variance £000
18,195	29,630	35,167	5,537	(1,392)	4,145

The projected pressure in Children's services is £4.145m net of identified action of £1.392m. The pressure on budgets is due to the following:

- The cost of placements – external placements for children continue to be a pressure, specifically in the cost of Independent Foster Care Agencies (IFA). Mitigating action is being taken to review IFA placements, and identify which children can be moved into in-house foster care. More foster carers are being recruited to avoid the use of IFAs.

- High cost residential placement costs have reduced as the service focuses on achieving better value and more appropriate placements for young people. There will continue to be a focus on reducing the number of placements and unit costs

- Pressures in staffing continue with the need to replace higher cost temporary staff with good quality permanent recruits. A fresh recruitment campaign has just been completed and which will support a reduction in agency staff.

The service continues to operate in an environment of increasing demand in terms of general population increases and high rates of unaccompanied asylum seekers. A number of mitigating actions have been identified to manage spend and both placements and staffing are the subject of the Impower review.

3.1.3 Environment & Place

Spend YTD £000	Full Year Budget £000	Forecast £000	Variance £000	Mitigating Action £000	Revised Variance £000
5,948	34,455	35,944	1,489	(1,176)	313

The 2016/17 budget for Environment and Place is £34.455m. The service will need to manage pressure of £1.489m in order to breakeven. In-year mitigation of £1.176m has been identified resulting in a projected overspend of £0.313m. The position includes additional spend of £0.260m to enable the ‘Clean it, Cut it, Fill it’ initiative for a pilot period of 3 months.

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. 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, the additional cost in respect of additional town centre clean up requirements, higher National Insurance costs following classification changes and changes to recycling contracts.

Proposed mitigating action is primarily through reviewing staff costs such as holding posts vacant, reviewing agency spend, route mapping for more efficiencies and achieving a 2% increase in recycling.

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:

The service is currently forecast to spend to budget, however there are a number of challenges that will need to be managed in order to achieve this. 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 will be funded through the subsequent release of funds.

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 of £0.100m – this relates to the Library service and follows 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.

Shared service options with Brentwood around regulatory functions in public protection 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:

Regeneration and Assets is forecast to spend to budget, 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. It is not immediately clear how this will be achieved and discussions continue.

Planning and Growth:

An underspend of £0.020m 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
3,185	10,268	10,268	0	(400)	(400)

Finance and IT are forecasting to underspend by £0.400m 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 £0.050m 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% budget reduction 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 10%.

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
1,670	7,881	8,001	120	(120)	0

HROD is forecasting to spend to budget in 2016/17. 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
695	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
214	610	610	0	0	0

The Commercial Services Directorate is forecasting to spend to budget.

3.1.8 Central Expenses

Spend YTD £000	Full Year Budget £000	Forecast £000	Variance £000	Mitigating Action £000	Revised Variance £000
1,037	7,015	7,015	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 under spend 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. 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, £4.500m 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	2,743	12,984	382	3.0
Housing Operations	12,476	2,404	12,194	(282)	(2.0)
Financing and Recharges	22,805	103	22,805	0	0
Rent and Income	(48,426)	(11,338)	(48,226)	200	0.4
Development	542	282	242	(300)	(1.4)
Total	**0**	**(5,805)**	**0**	**0**	**0**

The Housing Revenue Account budget, agreed by Cabinet in February 2016, is forecasting a breakeven position for 2016/17.

Potential risks to the position are due to delays in letting properties on Seabrooke Rise and Derry Avenue which has led to increased costs relating to Council Tax on void dwellings and a loss of rental income. The current rent collection rate on income due as at the end of June is 90.9% against a target of 90%. In addition to this, increased overhead costs relating to the Mears price per property contract have been included in the forecast along with additional spend on boiler installations that was not budgeted for.

Pressures are currently being offset by budget savings and efficiencies within Housing Operations and holding posts vacant. There is a forecast underspend in Development due to the progression of new build schemes into more established phases and requiring less support from revenue.

3.2 Medium Term Financial Strategy (MTFS)

3.2.1 The MTFS presented to Council in February 2016 shows the budget gap over the 3 years 2017/18 to 2019/20 as £18.443m. This already assumes delivery of £2.534m savings previously agreed for 2017/18 (see Appendix B) and assumes a Council Tax increase of 3.99% in each year.

3.2.2 As part of the ongoing budget planning process, the MTFS has been updated to reflect latest assumptions. The table below sets out the movements from the previous position and revised budget gap.

	2017/18	**2018/19**	**2019/20**	**Total**
February 2016	7.378	6.098	4.967	**18.443**
Business Rates	0.399	0.663	(0.463)	**0.599**
Inflation	(0.285)	(0.071)	(0.071)	**(0.427)**
Capital Financing	-	(0.042)	0.591	**0.549**
Government Grant	-	-	1.785	**1.785**
Revised Budget Gap	**7.492**	**6.648**	**6.809**	**20.949**

3.2.3 The key movements include:

- The position for 2017/18 and 2018/19 reflects a reduction in the provision for inflation but, adversely, also the possible impact of a significant category of business rate appeals that have been lodged;

- The majority of the increase is expected in 2019/20 and is largely as a result of further analysis on the four year funding settlement. It is prudent, at this stage, to reduce down the level of grant and business rate support in light of discussions on the removal or reduction of New Homes Bonus and further comments on grant levels; and

- The increase in Capital Financing reflects the likely interest rate increases towards the end of the MTFS period. This increased cost has been offset with significant savings in 2016/17 and smaller reductions over the following two years as a result of pushing back the impact in light of current economic forecasts.

3.2.4 As reported earlier in this report, one off funding has been identified to meet the costs of a Clean It, Cut It, Fill It pilot. The results of this pilot will be used to determine whether growth is required in the budget for a permanent increase to the Environment and Place budgets and this will be reported once known.

3.2.5 The position above includes the assumption of a 3.99% increase in council tax each year – 1.99% general increase and 2% adult social care precept. The table below sets out how any reductions to this assumption will increase the deficits set out in paragraph 3.2.2:

An increase of:	**Increases the budget gap by (£m)**			
	2017/18	**2018/19**	**2019/20**	**Total**
3.99%	0.000	0.000	0.000	0.000
3.00%	0.570	0.585	0.605	1.760
2.00%	1.140	1.170	1.210	3.520
1.00%	1.710	1.755	1.815	5.280
0.00%	2.280	2.340	2.420	7.040

3.3 Council Spending Review Process and Timetable

3.3.1 Given the level of saving previously delivered across the council, the pressures identified in 2016/17 and that there are minimal reserves to call upon, it is essential that there is a clear strategy to close the budget gap set out in the MTFS. As a result, the focus will be on 3 key areas:

- Income generation – including increasing the Council's commercial trading base. Council Tax increases also fall under this category;
- Achieving more / same for less – including further transformational projects, contract reviews, spend to save initiatives and alternative delivery models; and
- Demand management / early intervention. Examples include the Local Area Co-ordinators and Community Hubs.

3.3.2 However, where the budget gap cannot be fully closed through the above, the likely solution will be reductions to, or full cessation of, service provision.

3.3.3 Crossing through all of these areas is the need to adapt our workforce and change our culture to be an organisation which is more entrepreneurial, digitally-minded and commercially-aware.

3.3.4 The Council Spending Review will be underpinned by the following principles.

- Becoming financially self-sustainable;
- A minimum of 15-20% efficiencies in each service;

- A review of all services by March 2019 using common design principles (customer / demand management, commercial, ICT / digital, people, procurement, property and process);
- Non-statutory income generating services should be cost neutral; and
- Outcome focused including consideration of prevention and early intervention.

3.3.5 The transformation framework for achieving this is set out in the governance structure in Appendix C. The officer Transformation Board will oversee a number of Strategic Boards each with a specific focus and cross cutting membership. Each Strategic Board will be sponsored by a member of Directors Board and guided by the principles outlined above and strategic policy direction set by Members. The governance structure also includes the cross-party Council Spending Review Panel.

Growth	Performance
Customer Service & Demand Management	Commercial
ICT / Digital	People
Procurement	Property
Service Review	

3.3.6 The Council Spending Review timetable (Appendix D) has been prepared to achieve agreement of the budget by Cabinet and Council in February 2017. The main milestones are summarised below:

- July/August 2016 – Officer boards identify proposals and estimated savings for consultation with Cabinet Members;
- 7th September 2016 – Cabinet consider Q1 budget update including budget planning timetable and governance;
- September 2016 – Council Spending Review Panel (cross-party with Group Leaders and Deputies) consider savings options ahead of consultation;
- October/November 2016 – O&Ss consider proposals and public consultation where required;
- January 2017 – Cabinet agree proposals for implementation informed by O&S recommendations and draft budget referred to Corporate O&S; and
- February 2017 – Cabinet and Council budget setting.

3.4 **General Fund Balance**

3.4.1 The Council's S151 officer (Director of Finance and IT) has a responsibility to report to the Council annually the robustness of the Council's budget and adequacy of reserves.

3.4.2 A thorough review was carried out in 2010 and a level of £8m was recommended to Council and agreed at that level. Each year that amount has been reviewed at a high level with the Council agreeing the recommendation to maintain the £8m balance.

3.4.3 The review has been updated during the Summer and has considered the following risks:

- Contract Failure – in the last 12 months the Council, and nationally, has experienced failures in domiciliary care, children's centre provision and waste disposal;

- Interest Rate Increases – since the debt restructuring exercise, the Council has managed its cash flow through short term variable debt. The fact that this is unlikely in the current climate has been reflected in the probability linked to this risk;

- Significant Overspends not able to be mitigated, including a provision for unachieved savings – the Council has a proven track record of meeting various budget pressures in recent years with mitigating actions. However, this is becoming increasingly more difficult and the size of pressures with Children's and Adults' services in recent months have been challenging;

- Business Rates – the recent history of the impact of appeals from businesses to the Valuation office has had a significant impact on the Council's resources. Whilst there has recently been good news in terms of new business in the area, there has equally been a postponement of a major scheme as well;

- Council Tax – recognising the loss of income should projected house building not take place;

- Government Grants – although the core grants have been reflected in the MTFS, there are still a number of service specific grants that have been reducing annually; and

- Other factors considered: litigation; increases in employment costs higher than budgeted; inflationary impacts; adult social care winter pressures; and civil emergency costs.

3.4.4 Having considered the above and used probability and impact factors, the balance recommended is an increase of £1.26m to £9.26m. The Council's s151 officer would, considering the existing pressures within the MTFS, recommend an annual increase of £0.42m over the next three years to achieve this balance.

4. Reasons for Recommendation

4.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out the budget pressures in 2016/17 along with actions to mitigate these pressures and deliver a breakeven position. The report also outlines the budget gap over the next three years as per the MTFS and the approach and timetable to manage the 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. The timetable allocates October and November for Overview and Scrutiny committees to consider proposals and public consultation where required. The process also includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who will meet regularly during the budget planning period and ahead of key decision points.

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 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.

6.2 The scale of future budget reductions as set out in this report are such that work is underway to follow a transformational approach to tackle the challenge.

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 will 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.

A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed to address future savings requirements and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

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

Any other significant implications will be identified in any individual savings proposal business case to inform the consultation process where applicable and final decision making.

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):

- None

9. Appendices to the report

- Appendix 1 – 2016/2017 Savings Tracker
- Appendix 2 – 2017/2018 Savings Tracker
- Appendix 3 – Council Spending Review Governance Structure

- Appendix 4 – Budget Planning Timetable

Report Author:

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