

CALDERDALE MBC

WARDS AFFECTED: ALL

CABINET

1st October 2018

14

REVENUE MONITORING 2018/19 - BUDGET STRATEGY

Report of the Head of Finance

1. Purpose of Report

- 1.1 Cabinet considered the latest revenue monitoring report on the 30th July 2018 setting out the most recent forecast of directorate spend compared to budget.
- 1.2 Cabinet has been aware of the budget pressures and overall financial position in the current year and working with directors to manage this wherever possible. Given the position set out in the first quarter revenue monitor however directors have been considering what further action may be taken to manage these budget pressures. The ongoing impact of the current budget issues has been to an extent reflected in the MTFs and therefore the purpose of this report is to highlight further action being put in place to deal with the position in the current year.

2. Need for a Decision

- 2.1 The Council is statutorily required to set and maintain a balanced budget. Cabinet will therefore need to consider the steps being taken by directors as set out in the report.

3. Recommendations

That Cabinet:-

- 3.1 Agrees the action being taken by directors as set out in this report to address the current and future years' financial position.
- 3.2 That £2m is earmarked at this stage to support the revenue budget from the £10m capital funding agreed by Council as part of the Medium Term Financial Strategy.

4. Background

- 4.1 The revenue monitoring report that went to Cabinet on the 30th July set out the projected year end position for the Council's revenue expenditure budget for 2018/19. Overall, a significant overspend of £4.3m (£2.2m after the use of reserves) was reported and Members requested that directors report back to Cabinet on action being taken to address this overspend. A summary of the position can be seen in the table below:-

Directorate	Reported Overspend £000s
Adults & Childrens	1,495*
Chief Executives	0
Public Services	656
Regeneration & Strategy	0
Total Reported Overspend	2,151

*After the planned use of £2.1m of reserves to balance the budget

- 4.2 It was also reported that the MTFs assumed that general balances above the £5m minimum level were to be used to support the budget over the next 3 years. The only flexibility the Council has on these is that £828k could be used this year but it would need to be "paid back" with additional directorate savings in 2019/20 if the Council is to maintain the minimum level of balances over the three year period.
- 4.3 The Strategy and Performance Board scrutinised the first revenue monitoring report at their meeting on the 29th August. The next monitor for 2018/19 will be carried out as at the end of August and this is expected to be reported to Cabinet in November 2018 with scrutiny reporting being carried out at Strategy and Performance Board in December.

5. Options Considered

- 5.1 The reported overspend above shows the position after taking account of an initial range of measures that have been introduced to reduce spend. Directors have now carried out further work to revisit their forecasts and identify budgets where savings could be made to support the budget in 2018/19. If the reported overspends though cannot be reduced by management action or offset by the use of reserves, then they will have to be met from balances on a temporary basis until savings have been found to replenish them as explained above.
- 5.2 The main areas being put forward by directorates revolve around uncommitted budgets (where some discretion exists as to whether we spend them or not and when we spend them) and capital related savings (for example revenue contributions to the Capital Programme). Directors have also looked at the opportunities for delivering future year savings early and reviewing various income streams that could be higher than previously anticipated. Other service specific reviews have also been considered but realistically these are more likely to generate savings in future years.

5.3 Adults and Children Management Action

5.3.1 A £3.6m overspend (£1.5m after the use of one-off reserves) was forecast across the directorate in the first Revenue Monitor mainly due to the under-achievement of Budget Council savings, external placements for children and the All-age Disability Service.

Adult Social Care

5.3.2 Adult Social Care has been working to deliver approximately £2.6m of transformation savings in recent years. On top of this, at Budget Council 2017, a further £500k saving was agreed from early intervention and the prevention approach to social care.

5.3.3 To measure success of the initiative and achieve the saving, 836 packages of care would need to generate an average of £60 which could equate to less than 4 hours Home Care per week.

5.3.4 The pace of achievement has been slower than required to date. A shift in focus of the reviewing team to target high cost packages (i.e. over £500 per week) should mean a greater value of reviews being undertaken and therefore increased savings in the short term.

5.3.5 The embedding of timely reviewing processes to right size packages with a face to face detailed review at 3 months and another at 6 months will further generate savings especially for new packages of care and people leaving hospital. More fundamental change may be required for the other existing care packages and further work is being planned in this area. The Adults Division will continue to monitor the impact of all of these measures on a monthly basis.

5.3.6 The directorate intends that by applying the above actions it will minimise the use of reserves necessary to support the budget in the current year so that these can be used in future years to enhance financial resilience.

Children & Young Peoples Services

5.3.7 Additional investment on an invest to save basis in the Fostering Service is currently being considered. The purpose is to increase the number of foster carers, market opportunities, target recruitment and provide additional support, especially to the higher level foster carers. However, this is unlikely to yield substantial benefits in the current year.

5.3.8 The benchmarking of eligibility criteria and packages of care for children and an analysis of caseloads for social workers will shortly be completed to help inform where potential savings might also be found going forwards.

5.3.9 Children & Young People Services has a Future Workforce Programme target of £500k that still needs to be delivered. Work is underway though to reduce staffing costs (including looking at management ratios). Although the main budget pressures relate to Children's social care there are a wider range of services to children and young people provided from the directorate. It is recommended that a review of these areas be undertaken, with the new director, to fully understand whether there are further opportunities to manage the directorate budget within the resources available. Part of this work is already taking place with a review of services provided to schools, the extent to which these are statutory or discretionary and whether the charges made for discretionary elements reflect the costs incurred.

5.3.10 Realistically it is unlikely that the directorate can contain the cost of Children's Services within budget this year due to the issues highlighted above. The directorate intends however to reduce the overspend wherever possible and utilise remaining directorate reserves in the first instance. A further review of uncommitted budgets and reserves in the directorate will therefore be carried out. Going forwards, the additional budget support provided for Children's Social Care of £2.5m in 2018/19 reduces by £500k in each of the next two years to £1.5m by 2020/21 so a more sustainable way of delivering children's services needs to be found.

5.4 Chief Executive's Office incl. Public Health

5.4.1 The Chief Executive's Office reported that it is not expecting to overspend in the current year. Its share of the Future Workforce Saving of £116k can be dealt with through vacancy management measures although the scope to reduce expenditure against uncommitted budgets is limited in Chief Executive's as most of the directorate's budgets relate to staffing costs. Legal Services' budget in particular will be difficult to balance due to the continued dependence on locums due to recruitment and retention issues and the under-achievement of savings around democratic processes. Any further savings or additional income that can be achieved over the remainder of the year will be used to help contribute to the Council's overall overspend. As in Regeneration & Strategy, the possibility of capitalising finance-related work will be explored to generate income/cost savings for the Council.

5.4.2 The transfer of Business Support from directorates to Chief Executives is almost complete. Budgets are in the process of being re-aligned and the service is hopeful that it can deliver on its existing £500k savings target although more work might still need to be done.

5.4.3 The Public Health Service is managing pressures in the short term using reserves and the early achievement of agreed savings but increases in these savings targets in future years will make balancing their the budget more difficult going forwards. More detailed proposals and plans are being drawn up to meet the budget challenges in future years.

5.5 Public Services Management Action

5.5.1 Public Services reported a **£656k overspend** on expenditure and income budgets across the directorate in the first revenue monitor.

5.5.2 Three areas in particular within the directorate have significant budget pressures and savings targets that need to be achieved – Libraries, the Transport Service and Waste Management. The forecast position reflects these but in particular in the current year demand pressures and savings targets still to be achieved on Transport services.

5.5.3 In terms of libraries, options for re-locating those libraries which are in the worst condition are being looked at along with income generating opportunities. A paper is being put together setting out options to deliver the £160k savings target from 2019/20 onwards but until agreement is reached the shortfall will need to be offset by budget reductions elsewhere within the directorate. The in year saving of £30k can be achieved through changes being put in place.

- 5.5.4 The directorate is currently forecasting an overspend of around £500k on Transport Services. This was one of the areas transferred to Public Services as part of the recent Senior Management Review. An action plan is being developed to reduce transport costs using a number initiatives including vehicle tracking, replacement of the transport fleet, taxi and other hire costs, the potential for pool cars and a review of the demand for Home to School Transport. Although there is significant potential from these options it is unlikely that the savings generated in the current year will be sufficient. Regeneration & Strategy is therefore working with the directorate on a transitional basis to put together a budgetary contribution from savings available to them whilst these more permanent measures are put in place.
- 5.5.5 A plan to meet the £167k savings (£135k in 2018/19) in relation to Waste are still to be agreed. Options include a weekly phased approach to opening times, additional charges and a review of discretionary elements of the service. Until the planned changes or alternatives are put in place, the in year savings remain at risk.
- 5.5.6 The I.C.T Services budget is facing demand pressures in the current year compounded by savings targets in I.C.T infrastructure and operating functions. These will be managed to an extent with vacancy management, Oracle licence cost reductions and one-off grant funding from the DWP for system development. The Council's I.T. Reserve has been specifically set up to smooth the effects of uneven spend or one-off projects so it would seem reasonable to employ part of this reserve in 2018/19 to fund any residual shortfall. The reserve is intended primarily however for the replacement of infrastructure and systems. Plans however will need to be put in place in 2019/20 to deal with on-going pressures, a further £100k saving on user support and a £75k increase in the I.C.T. Infrastructure saving.
- 5.5.7 The directorate has already put in place a robust gatekeeper process to control all non-essential expenditure. In addition to the expected savings from this, the use of any other uncommitted budgets will be challenged. Any savings will be earmarked to offset the Directorate's overspend instead of being spent over the remaining months of the year.

5.6 Regeneration & Strategy Management Action

- 5.6.1 The first monitor reported that the Regeneration & Strategy Directorate was facing budget pressures (in excess of £1m across CAFM, Housing and Planning) but forecasting a balanced budget by year end. Contractual issues are also likely to be a pressure for the service in 2018/19 but there is scope to meet these within the Directorate's budget by spreading them over a number of years.
- 5.6.2 Although the second monitor for the year will not be completed and reported to Cabinet until 5th November 2018, further work has now been commissioned by Departmental Management Team.
- 5.6.3 The scale of investment being delivered by the directorate through the Capital Programme is increasing at a time when revenue resources are continuing to decline. In order to manage the pressures highlighted in the current year, it is therefore proposed to fully utilise the existing CAFM Asset Management and other programmes of work run by the directorate as well as other capital budgets to offset some of the costs currently being absorbed within the revenue budget.

- 5.6.4 The directorate will try to fully utilise external funding streams to reduce revenue costs and increase income where possible. To date, planning fees appear to be running ahead of budget possibly due to the early effects of the Local Plan.
- 5.6.5 The overall budget includes the sum of £1.6m to meet the cost of cyclical, reactive, planned and minor works repairs and maintenance. There are significant implications of reducing the overall budget in an area that is already underfunded but the overall programme will be reviewed in the current year to understand whether any repairs can be deferred and the potential impact of this. The directorate will also benefit from the plan to dispose of non-core assets (particularly higher cost buildings) as considered recently at the Asset Management Board although these are more likely to generate savings in future years. The re-fit programme 2nd phase was taken to Cabinet for approval in September. The report shows that the scheme should pay for itself based on current energy costs (guaranteed by the contractor) though further savings are expected to accrue in future as energy prices rise.
- 5.6.6 The opportunity may exist to reduce the prudential borrowing cost attached to the Town Centre Office Strategy by charging financing costs over a period more related to the expected life, i.e. 40 years rather than 25 years. The size of any potential saving though will only be known when the final cost of TCOS is determined later this year.
- 5.6.7 The Winter Maintenance budget continues to be a concern. The budget of £1.4m is insufficient to deal with a similar situation to last winter when expenditure was in excess of £2.6m. A recent report to scrutiny highlighted the issues but the standard service requirements of an average winter still need to be assessed so that the service level can be matched to the budget available. A financial review of the service, including lessons learned from last year, will inform this assessment of the budget required and feed into the consideration of the winter maintenance policy.
- 5.6.8 If all of the savings are realised to the level detailed above and no further pressures arise over the remainder of the year, the overall cost of the directorate will be contained within its service controlled budget.

5.7 Other Mitigating Actions and Savings

- 5.7.1 In addition to the £2.1m of reserves already identified in the 1st Revenue Monitoring report, the scope to use other earmarked reserves to support the budget will be explored. The Council is already planning to use balances down to within £275k of the minimum level, so, apart from on a very short term basis to manage any residual overspend at year end, balances cannot be counted upon to cover the scale of overspends that could materialise. Due to these uncertainties it is therefore being recommended that £2m is earmarked at this stage to support the budget from the £10m capital funding agreed by Council as part of the Medium Term Financial Strategy. This can be achieved by using part of the £10m prudential borrowing to fund existing costs in the capital programme which have been funded from revenue reserves.
- 5.7.2 Other local authorities which are experiencing more severe budgetary pressures and reducing levels of reserves have taken steps to reduce service provision to core or statutory levels or taken voluntary action to reduce discretionary spend wherever possible. In a small number of cases (at this stage) authorities have either been forced to do this through their Chief Finance Officer issuing a Section 114 notice or their

external auditors issuing a Section 14 notice. However, more Councils are identifying action short of this but with far reaching consequences for service delivery. This position can be avoided if appropriate and early action is taken to control expenditure within budget before overspends become unmanageable.

6. Financial Implications

- 6.1 The actual year end position will obviously not be known until after the 31st March 2019 but this report sets out a possible strategy to deal with the overspend currently being predicted by directorates.
- 6.2 The measures being put forward should help keep Chief Executives, Regeneration & Strategy and Public Services within budget. A number of reserves have already been identified as being available but these are only sufficient to manage part of the remaining overspend being forecast in the other directorates. Action is also being taken within Children & Young People's service to reduce the forecast overspend but is unlikely to bring it back in line with budget by year-end.
- 6.3 Progress on the measures being taken will be reported to Cabinet at the second Revenue Monitor in November, and, if necessary, further actions will be proposed to reduce any overspends being forecasted then. Work will however continue to until year end to try to deliver a balanced budget in 2018/19.
- 6.4 Many of the financial pressures in the current year will continue on an on-going basis until longer term solutions are put in place. The Council's Medium Term Financial Strategy makes provision for the on-going impact of some of these pressures in subsequent years (up to a level of £2m) and determines the amount of additional savings required to address them on a permanent basis.
- 6.5 In the wake of the problems experienced by Northamptonshire County Council and the financial challenges in other local authorities, the financial resilience of all councils is now being brought into question. CIPFA is due to publish its financial resilience index this Autumn to show, in relative terms, which local authorities are more at risk from exceeding their budget and therefore susceptible to financial failure. Although a number of concerns have been expressed during consultation on the index such as it is too simplistic, there is very little dissent about the need to monitor closely the financial resilience of local authorities particularly as austerity and demand pressures continue. The MTFs that was considered by Council in September stated that no further use of balances or reserves should be planned for future years. Likewise, it is recommended that management action, rather than these one-off amounts of funding, is used to manage overspends in the current year to protect the Council's financial resilience going forwards.

7. Legal Implications

- 7.1 The Council has a statutory requirement to set a balanced budget each year. This report sets out the monitoring of those budgets during 2018/19 and the actions now required to remain within budget.

8. Consultation

8.1 The financial forecasts and actions were compiled in consultation with Cabinet Members, Directors and Heads of Service.

9. Environmental, Health and Economic Implications

9.1 The environmental, health and economic implications of the individual budget proposals were considered as part of the budget process and during the consultation.

10. Equality and Diversity

10.1 Equality Impact Assessments were undertaken and made available for all of the new budget proposals agreed for 2018/19.

11. Summary and Recommendations

11.1 Two directorates (Public Services and Adults & Children's) reported significant overspends totalling £2.2m at the last monitor (after assuming the use of £2.1m of service reserves).

11.2 Although measures are being developed and implemented to try to manage the budget pressures, given the scale of the projected overspend in 2018/19, it is necessary to start putting in place additional measures now. The further use of reserves, other management actions and use of a portion of the £10m of capital funding have therefore been identified in this report to offset the potential overspend. Clearly this solution is not sustainable in the longer term and the MTFs recommends that no further use of balances and reserves should be assumed in balancing the budget in future years.

11.3 If these measures are not put in place or the overspend deteriorates then balances up to £828k could be used temporarily to balance the budget in 2018/19 although further savings will need to be found in 2019/20 to repay these. Clearly a number of measures (especially the use of reserves) are one-off in nature, and, should the overspend continue into future years beyond the level assumed in the MTFs, the strategy put forward in this report might ultimately be unsustainable going forwards. The Head of Finance will however continue to monitor the position and recommend when further action is required.

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DOCUMENTS USED IN THE PREPARATION OF THIS REPORT:

Final Accounts 2017/18 – Revenue Outturn

Cabinet Report – Revenue Monitor 2018/19 Overall Position 1st Monitor

Medium Term Financial Strategy 2019/20 to 2021/22

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT:

Westgate House, Westgate, Halifax HX1 1PS