

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

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|-------------------------|---|---------------------|----------------------------------|
| TO: | AUDIT & GOVERNANCE COMMITTEE | | |
| DATE: | 24 SEPTEMBER 2015 | AGENDA ITEM: | 6 |
| TITLE: | BUDGET MONITORING 2015/16 | | |
| LEAD COUNCILLOR: | COUNCILLORS LOVELOCK/ PAGE | PORTFOLIO: | FINANCE |
| SERVICE: | FINANCIAL | WARDS: | BOROUGHWIDE |
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1. EXECUTIVE SUMMARY

- 1.1 This report set out the budget monitoring position for the Council to the end of July 2015.
- 1.2 The report builds upon the outturn position for 2014/15 (which is subject to external audit but not expected to change), but recognises that 2015/16 financial pressures on both adult and children's social care budgets cannot be sustained beyond this year, and require action to address them in this and future years.

2. RECOMMENDED ACTION

- 2.1 Audit & Governance is asked to note the budget monitoring position for 2015/16 as at the end of July.

3. BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are summarised below:

| | Emerging Variances £000 | Remedial Action £000 | Net Variation £000 |
|--|----------------------------|-------------------------|-----------------------|
| Environment & Neighbourhood Services | 500 | (200) | 300 |
| Childrens, Education & Early Help Services | 1,954 | (1,954) | 0 |
| Adults Care and Health Services | 2,035 | (1,890) | 145 |
| Corporate Support Services | 140 | (140) | 0 |
| Directorate Sub total | 4,629 | (4,184) | 445 |
| Treasury | (398) | | (398) |
| Total | 4,231 | (4,184) | 47 |

3.2 Environment & Neighbourhood Services

Despite increasing this year's budget for bed and breakfast costs, it has not been possible to contain the growth in the number of placements and the cost of rooms has also arisen more than expected. A range of mitigating measures is being implemented and/or are proposed, including: increasing the amount of temporary accommodation available, launching a new Guaranteed Rent Scheme (GRS) offer to landlords and strengthening prevention activity. A £500k overspend is currently forecast, This will be partially offset by a one-off £200k saving in culture and leisure budgets.

3.3 Children, Education & Early Help Services

There are overall pressures within Children's Services of £1.954m, largely comprising placements, agency & interim staffing, allowances (flowing from agreed rate changes) and bed and breakfast costs. Within Education services there is a pressure of £328k arising from an unachieved saving within business support and home to school transport demand pressures. Measures are being taken to reduce these pressures in year including a resources panel and measures to improve recruitment & retention. At present there are some savings of c£100k within Early Help and Family Intervention. Overall the Directorate has an overspend, though by making use of the strategic demand reserve it is possible to balance the financial position in 2015/16, but with the impact of effectively depleting almost all the reserve, which is not sustainable.

Within the Dedicated Schools Grant there is a budget gap of £1.3m on the high needs block in 2015/16. The Schools Forum will consider further measures to address the pressure in October.

3.4 Adult Care & Health Services

The Directorate is currently reporting an overspend of £2.035m which is an increase of £180k compared to last month. Whilst there have been some small reductions in a couple of areas there have been increases in pressure in both Mental Health and the Childrens Disability Teams. The increase now exceeds the available Strategic Demand Reserve which would need to be fully used up with a further overspend of £145k. Some measures have already been introduced including a new Funding Panel, an action plan for the Financial Assessment and Benefits Team, though their forecast full effect has yet to be delivered. As usual there is uncertainty associated with the cost of Older People as we go towards and into winter and at present no potential winter pressures funding has been factored into the forecast (whereas some has been received in recent years).

3.5 Corporate Support Services

Budget monitoring to the end of July is showing some pressures across various services. However, overall the Directorate is currently expecting to spend in line with budget.

4. TREASURY MANAGEMENT

4.1 At present an under spend of £398k is forecast based upon current projections of borrowing costs, developing debt repayment plans, interest and investment income. In the three year financial plan agreed in February treasury costs were forecast to rise by over £6m in the three years to 2017/18. As this is likely to be unaffordable officers have been working with advisors to consider how this can be reduced, ideally keeping the cost at no more than £12.6m (the underlying budget in 2015/6 after allowing for planned use of the Prudential Reserve).

4.2 That work is on-going and will be reported in detail in due course but measures have already been identified that should reduce the increase by at least £3.5m. The impact of these measures, taken together with the effect of current year cash flow and the cost of 2014/15 borrowing capital being lower than forecast is producing an underspend in 2015/16 and (subject to confirmation) a postponement of the Prudential Reserve Transfer to 2016/17.

5. FORECAST GENERAL FUND BALANCE

5.1 The General Fund Balance at the end of 2014/15 was £5.62m (subject to audit). As indicated in the table above, assuming remedial action highlighted is carried out, there is now expected to be an overspend on service revenue budgets of £445k.

5.2 Children's, Education and Early Help Services and Adult Care and Health Services both have significant forecast overspends and need to effectively fully utilise their respective Strategic Demand Reserves which is not sustainable. Based upon the forecasts above the Childrens reserve would be £0.2m at 31 March 2016 and the Adults reserve would be fully depleted. We

are looking for mitigating measures to reduce significantly the level of call on the reserve.

- 5.3 The pressure on service directorate budgets is partly offset by a favourable treasury position, so there is an overall overspend of £47k which when taken together with a planned use of balances by £142k should mean we end the financial year above the £5m minimum level for balances at £5.43m.

6. CAPITAL PROGRAMME 2015/16

- 6.1 The current forecast level of capital expenditure for the year is £89.6m, of which £76.6m relates to General Fund services and £13m to the HRA.

- 6.2 The table shows the expenditure by priority area and its current estimated funding.

| CAPITAL PROGRAMME | £m |
|--|--------------------|
| Safeguarding & Protecting those that are most vulnerable | 3.9 |
| Providing the best life through education, early help & healthy living | 37.8 |
| Providing homes for those most in need | 11.2 |
| Keeping the town clean, green and active | 8.0 |
| Proving infrastructure to support the economy | 20.8 |
| Remaining financially sustainable to deliver these service priorities | 7.9 |
| Total | <u>89.6</u> |

| FORECAST FUNDING | £m |
|--|--------------------|
| Grants | 23.4 |
| Receipts (inc. S106 and HRA Major Repairs Reserve) | 18.1 |
| Borrowing | 48.1 |
| Total Funding | <u>89.6</u> |

- 6.3 General Fund capita; expenditure to 31 July totalled £17m as work on Transport Pinch Point (£1.6m) and LSTF (£4.7m) schemes approach completion and Primary School Expansion projects (£7.8m) proceed according to schedule in the current year.

7. HRA

7.1 Supervision and Management

There is a projected underspend of £100k on employee budgets arising from vacancies and a projected under spend on training budgets. Non repair supply and service budgets appear to be broadly on track.

7.2 Capital funded from HRA

Works on Block 2 at Hexham Road as part of the refurbishment programme will commence in October. The scheduled completion date for Block 2 is

April 2016. The funds for the works to Block 3 (£1.2m) will be carried forward to 2016/17.

7.3 Rent Income

A preliminary review of rent income suggests that it will be broadly in line with the budgeted amount (over £30m), taking account of the rent debit and collection to date in the year.

7.4 Capital Financing

Less HRA capital was financed by borrowing than forecast in 2014/15 and that taken with the HRA impact of the Council's cash flow position are such that we forecast an underspend of at least £400k in this budget (£10.6m)

7.5 Overall we therefore anticipate a £500k underspend, together with £1.2m of the Hexham Road work carrying forward into 2016/17 in comparison with the agreed budget last January.

8. RISK ASSESSMENT

8.1 There are risks associated with delivering the Council's budget and this was subject to an overall budget risk assessment. At the current time those risks are being reviewed as part of budget monitoring and can be classed as follows:

- High use of agency staffing & consultants;
- Pressures on pay costs in some areas to recruit staff or maintain services;
- In year reductions in grant flowing from the new government (notably Public Health Grant where a near £600k grant cut has been proposed);
- Demand for adult social care which is forecast to effectively deplete the strategic demand reserve;
- Demand for children's social care which could deplete the reserve;
- Homelessness, and the likely need for additional bed & breakfast accommodation (this also affects other Directorates notably DCEEHS);
- Demand for special education needs services
- Not complying fully with grant conditions for capital projects by spending the required money during the current financial year
- Housing Benefit Subsidy does not fully meet the cost of benefit paid

9. BUDGET SAVINGS RAG STATUS

9.1 The RAG status of savings and income generation proposals included in the 2015/16 budget are subject to a monthly review. The RAG status in terms of progress is summarised below:

| | £000 | % | Comparator to July % |
|--------------|--------------|------------|----------------------|
| Red | 265 | 3 | 4 |
| Amber | 2,643 | 31 | 30 |
| Green | 5,598 | 66 | 66 |
| Total | 8,505 | 100 | 100 |

9.2 The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to

those shown above. As indicated above less than £100k of savings that were reported “red” in July are now being progressed, but the savings fully implemented has not improved.

10. COUNCIL TAX & BUSINESS RATE INCOME

10.1 We have set targets for tax collection, and the end of July 2015 position is:

| Council Tax | 2015/16 £000 | Previous Year's Arrears £000 | Total £000 |
|-------------|-----------------|------------------------------------|---------------|
| Target | 31,259 | 940 | 32,199 |
| Actual | 30,962 | 552 | 31,514 |
| Variance | 297 below | 388 below | 685 below |

10.2 For 2015/16 as a whole the minimum target for Council Tax is 96.5%, (2014/15 collection rate 96.7%). At the end of July 2015, collection for the year was 38% compared to a target of 38.4%, and collection is slightly behind 2014/15 (38.4% by end of July 2014).

10.3 Business Rates Income to the end of July 2015

| Business Rates | 2015/16 £000 | 2015/16 % |
|----------------|-----------------|--------------|
| Target | 40,604 | 36.1 |
| Actual | 40,015 | 35.6 |
| Variance | 589 below | 0.5% below |

The target for 2015/16 as a whole is 98.50%. The pattern of business rates payments has been changing following regulatory changes, and the target profile has been adjusted to reflect the new arrangements. At the end of July 2014, 36.44% of rates had been collected, but there are some limitations to that as a comparative figure.

11. OUTSTANDING GENERAL DEBTS

11.1 The Council’s outstanding debt total as at 31 July 2015 stands at £2,355 in comparison to the 31st March figure of £3,176k. This shows a decrease of £821k, but we note that £1,754k of the balance as at 31 July 2015 is greater than 151 days old.

12. CONTRIBUTION TO STRATEGIC AIMS

12.1 The delivery of the Council’s actual within budget overall is essential to ensure the Council meets its strategic aims.

13. COMMUNITY ENGAGEMENT AND INFORMATION

13.1 None arising directly from this report.

14. LEGAL IMPLICATIONS

- 14.1 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves.
- 14.2 With regard to Budget Monitoring, the Act requires that the Authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring. Currently Budget Monitoring reports are submitted to Policy Committee regularly throughout the year and therefore we comply with this requirement.

15. FINANCIAL IMPLICATIONS

- 15.1 The main financial implications are included in the report.

16. EQUALITY IMPACT ASSESSMENT

- 16.1 None arising directly from the report. An Equality Impact Assessments was undertaken and published for the 2015/16 budget as a whole.

17. BACKGROUND PAPERS

- 17.1 Budget Working & monitoring papers, save confidential/protected items.