

## CABINET

18 September 2018

<b>Title:</b> Budget Monitoring 2018/19 – April to July (Month 4)	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b>	
<p>This is the first budget monitoring report of this financial year presented to Cabinet. As a result of the extremely challenging financial situation faced by this Council and all local authorities, the final outturn for 2017/18 was an overspend against approved expenditure budgets of £5.6m. Since 2010 Local Government has seen year on year reductions in funding while pressures have increased through demography and inflation. As part of its growth focused and transformational Medium Term Financial Strategy (MTFS), the Council has been able to address many of its pressure areas either with the provision of additional funding or the implementation of transformation programmes to reduce spend or a combination of both.</p>	
<p>There do remain significant pressures within Care and Support services – both for Adults and Children. These partly arise from long standing demographic and other demand pressures, recent increases in the cost of care linked to increasing pay costs and also the difficulties in recruiting and retaining permanent social care staff. These pressures are known to be a shared problem for most if not all top tier authorities. As part of the Council's Transformation Programme, new services/operating models and ways of working based on supporting residents and communities to develop their own strengths and resilience have been put in place. Over time, it is expected that this will both result in better outcomes for people and also significant savings which have been built into the MTFS. However, the financial impact is not yet evident in the budget monitoring where there appears to be a savings shortfall. This, combined with the inherent demand pressures, is resulting in significant forecast overspends.</p>	
<p>This budget monitoring report shows a projected overspend of £4.924m at the year end. This is made up of potential overspends of up to £11.5 across a range of services but especially Care and Support, offset by central underspends and contingencies of c£6.5m. At this stage of the year it is very possible that strong management action will be able to mitigate this potential pressure resulting in a much lower outturn position. However, it is also possible that other pressures could emerge during the year – especially if there are unfavourable external circumstances that affect the demand for services. The total forecast expenditure is £150.292m against a budget of £145.368m.</p>	

This report includes the first quarterly update on the HRA which shows a reduced surplus position of £0.9m (effectively this means an overspend). This is the result of a non-achieved saving in Repairs and Maintenance and a forecast reduction in rental income.

This report also includes an update about the use of the Strategic Investment Pot (SIP) funds generated as part of the London Business Rates Pool. A Cabinet decision is required to agree the allocation of this funding to appropriate projects across the city.

Cabinet is also asked to approve a number of virements.

### **Recommendation(s)**

The Cabinet is recommended to:

- (i) Note the current forecast outturn position for 2018/19 of the Council's General Fund revenue budget as detailed in section 2 and Appendix A of the report;
- (ii) Note the current forecast outturn position for the Housing Revenue Account for 2018/19;
- (iii) Approve the proposed allocation of the London-wide Strategic Investment Pot to the individual projects listed in paragraph 5.8 of the report and that the SIP Panel be encouraged to allocate any additional funding that may become available to the 'Local London: Investment in Fibre' project, which would serve Barking and Dagenham; and
- (iv) Approve the virements as detailed in paragraph 6 and Appendix D of the report.

### **Reason(s)**

As a matter of good financial practice, the Cabinet should be informed about the Council's spending performance and its financial position. This will assist the Cabinet in holding officers to account and in making future financial decisions.

## **1 Introduction and Background**

- 1.1 This report provides a summary of the forecast outturn for the Council's General Fund and the delivery of savings in 2018/19.

## **2 Overall Position**

- 2.1 As reported to Cabinet in June, the final outturn variance for the Council's revenue budget in 2017/18 was an overspend of £5.4m. This was the result of a range of long standing pressures including demography and demand pressures and the impact of austerity on both Council budgets and our residents, especially those affected by welfare reform. These pressures were identified by the Council's management and finance team and action was taken to address them including the provision of growth funding for a number of services in the Medium Term Financial Strategy.

- 2.2 However in some areas especially Care and Support the issues involved are complex and the pressures are long standing. These pressures remain into 2018/19 and are likely to result in overspends. These include demand pressures and unachieved savings across Care and Support, a shortfall on Parking Enforcement income, slippage on the achievement of the Traded Services dividend and not yet achieved savings in Customer Services.
- 2.3 These are offset by underspends in Central Services and the use of risk contingencies written into the budget as part of our planning process. The total forecast unmitigated pressure at this stage is £4.951m – a reduction since last month of £0.58m. In many ways this could be regarded as a worst-case forecast that should be reduced by further management action. However, it should also be noted that new pressures and risks may yet emerge. The position will be closely monitored and reported to Cabinet on a monthly basis.
- 2.4 The services forecasting an overspend have been tasked with putting together recovery plans including ensuring the delivery of savings, short term measures to reduce the in-year forecast and longer-term management of demand and costs. Mitigations and actions identified to date plus some assumptions about income mean that the best-case forecast could be much. However, this is a very optimistic scenario that assumes all mitigating action is successful and that no new pressures arise.
- 2.5 If the £5m forecast was still the final position by the end of the financial year it would require a drawdown on the Council's reserves. Although we do have sufficient to cover this amount, a reduction in the reserves would mean less capacity for strategic investment and the management of future risks. For this reason, it is important that action is taken swiftly to mitigate these pressures and any others that arise in the year.
- 2.6 Further details of the services with significant variances are given below.

### **3. More Information on the Main Variances**

#### **Childrens Care and Support –overspend of £5.371m**

- 3.1 The service finished last year with an overspend of £3.3m. As most of this overspend was either in staffing or the Children's placements these commitments have continued into the new financial year. In addition, budget savings of £1.87m have been taken from the budget but are not yet all fully achieved and some pressures have grown in response to increased demand.
- 3.2 The top three elements of the overspend are staffing, (£2.5m), placements (£2m), and the costs associated with legal proceedings (£0.4m including costs of Counsel, expert witnesses and court mandated assessments and investigations.)
- 3.3 The staffing overspend reflects the need for staff to be employed above the budgeted establishment in order to keep caseloads at a safe level while demand and activity is increasing, the additional costs of the pay award and the retention scheme for permanent staff and the agency premium (the cost differential between permanent staff and agency workers.)

- 3.4 The service has a range of mitigation actions in place including a variety of recruitment and retention initiatives such as the recruitment of social workers from overseas and the development of a “Grow Your Own” programme.
- 3.5 In addition there are initiatives to reduce the number of Children in Care through the Pause project and a programme of intensive support for older children/young people who are the edge of care plus working with Community Solutions and others on the Early Help offer. There are also commissioning initiatives to control the costs of care and accommodation and an ongoing programme of reviewing high cost placements to ensure they are still meeting the needs of the child. These all have the potential to reduce the forecast over the longer term but will only have a part year effect this year and so it is unlikely that the service can be brought back into budget balance in 2018/19.
- 3.6 However there are significant risks in the service including the level of serious youth crime in the borough (as shown in our high level of secure accommodation placements), the need to strengthen contextual safeguarding – which may result in the uncovering of unmet need - and the need to prepare for the Ofsted inspection. These create upwards pressures on the service which may counteract some of the savings initiatives described.

#### **Disabilities Care and Support – forecast overspend of £3.159m**

- 3.7 This service was created last year, bringing together teams from across the former Adults and Childrens Services departments. The work of this area includes Life Planning, supporting adults and young people with disabilities to lead rich and independent lives in the community but also safeguarding and child protection for Children with Disabilities who are at risk of harm. As the population has increased the number of disabled children and young people has also increased resulting in demand pressures across the service. The new service has an aim to increase independence and resilience and reduce costs of care through working in with people with disabilities to achieve their goals. Currently £0.488m of savings are not yet allocated to specific cost lines as plans are not yet fully developed.
- 3.8 The service finished last year with a significant overspend and is an area of known high demand growth. The forecast is composed of the following main elements: £1m on Learning Disability Care and Support, £0.7m Children with Disabilities Care and Support, £0.3m SEN transport, £0.464m on staffing, £0.5m unallocated savings.
- 3.9 The service is projecting an overspend of **£1.291m** on Care and Support for Adults with Learning Disabilities. These can be very high cost packages for some clients with extremely complex needs and are a long-term commitment. The forecast has been arrived at by projecting all the clients as at May 2018 to the end of the financial year. No allowance has yet been made for new clients who may come into the service during the year. This means that the forecast may well increase. There are savings expectations built into the budget from planned actions to reduce expenditure through improved Life Planning and reviewing. If these actions start to have an impact to reduce spend then the forecast may come down.
- 3.10 The cost of packages in place to support children with disabilities is projecting an overspend of **£0.728m**. £0.141m of this is attributable to the projected spend on

legal cases and associated court costs. There are currently 238 direct payment clients with an overspend of **£0.384m** and an additional budget pressure of **£0.154m** is due to the cost of providing respite care to the clients. These are demand pressures arising from the increasing numbers of children requiring support.

- 3.11 The forecasts for care and support packages for children and placements for Adults have continued to increase slowly each month and it is not clear if, how and when this upwards trend might stop or reverse.
- 3.12 The service has identified a potential £0.6m of further mitigating action largely to be achieved in Adult age placements through reviews (£0.2m), stricter management control (£0.1m) and creative use of the Adaptations and Equipments budget (£0.3m.) However, experience has shown that these actions can be hard to implement and also it must be recognised that the forecasts do not allow for growth/new placements. In practice any saving achieved may only suffice to contain new growth rather than to reduce spend.

### **Adults Care and Support – Overspend of £1.693m**

- 3.13 There is a structural budget pressure in Adults linked to demographic growth but currently it is less steep than in Disabilities and has largely been contained within the funding provided from a mixture of ASC grant/IBCF and the precept. However, there are significant pressures already showing within the service including those arising from non-delivery of savings that were covered in year (last year) by use of the Improved Better Care Fund.
- 3.14 The presumption in the MTFs was that savings would be delivered in time for this year, in a range of areas, but these have yet to be implemented. The shortfall in year is estimated to be in the region of £2.2m. Alternative savings and mitigating actions have been identified that once achieved will reduce this pressure and could bring the overall overspend sharply.
- 3.15 In the short term these actions include a short-term review of Crisis Intervention (which is where the bulk of the pressure is currently sitting) and management control on decision making. The full implementation of the approved charging policy is also expected to increase contribution income. To date Adults have a reasonably good track record of successful in-year mitigation of risk. However, the pressures have become greater in recent years and there is a marked upwards trend in the level of homecare. In addition, there are clear cost pressures within the market.

### **Enforcement – forecast of £0.067m**

- 3.16 The service ended last year with a shortfall on parking income against the expected level in the budget. Since then managers have worked to introduce service improvements and efficiencies to increase the effectiveness of enforcement activity and improve the level of income collected. Mitigating action in other budgets has also been identified.
- 3.17 In addition a report was agreed by Cabinet in July which included a number of changes to the Parking Strategy and associated Fees and Charges. Parking

income actuals have been buoyant over the previous few months resulting in a reduction of the forecast overspend from £0.68m to £0.067m.

### **B&D Trading Partnership – potential pressure of £0.942**

- 3.18 The MTFs includes an expected dividend from the Home Services/We Fix division of the Barking and Dagenham Trading Partnership of £0.942m. This was based on the best information last summer about the expected performance of the company and the date upon which it would start trading. This forecast has not been changed since last month as negotiations over the business plan are still ongoing.

### **Customer Services and Contracted Services – potential overspend of £0.14m**

- 3.19 There has previously been a pressure in this area related to the recovery of court costs. However, this was rebased in the MTFs and is not expected to recur. There is a pressure of £0.2m on the IT budget which is being investigated and may be possible to resolve from the Corporate Infrastructure reserve. There is an expected saving of £0.52m for the Customer Access Strategy. The programme has achieved some channel shift and a reduction in call volumes – discussions are underway as to how far this will translate into a cashable saving so this is currently shown as a pressure.
- 3.20 Discussions with Elevate have revealed that there is an unclaimed one-off discount of £0.487m against the target cost and a rebate of £93k on laaS. This has now been included in the forecast.

### **My Place and Public Realm – underspend of £0.132m**

- 3.21 My Place is currently forecasting an underspend of £0.132m inclusive of an overspend on Public Realm. There are a number of vacancies across the service following the creation of the service – offset by some use of agency and interim staff. Recruitment activity is underway. However, the service will need to maintain some vacancies to absorb the pay award pressures.
- 3.22 There is an overspend in Public Realm on the Transport division mostly relating to a prior year saving that has never been achieved. This is currently partly offset by a small underspend on Waste Services. However, there are risks connected to the Fleet costs as the long lead in times for new refuse vehicles means that the service is still having to use many old vehicles which are prone to breakdowns and needing repairs. This results in cost pressures both for the cost of repairs and short-term vehicle hire while they are being carried out.

### **Other Operational Services**

- 3.23 In addition there are a range of small variances in other services including £0.02m in Legal and Democratic Services and £0.03m in HR/OD where there are pressures on the staffing budgets and £0.06m in Culture and Heritage.
- 3.24 The Elevate Client Unit has a pressure due to an expected fall in the Nationality Checking Service demand due to the government has asking private firms to tender for this service rather than provide it via Local Authorities from October 2018.

## **Commissioning**

- 3.25 There are underspends in Inclusive Growth Commissioning (£0.04m), Adults (£0.02m) and Childrens (£0.17m). These are the result of staffing vacancies while the new structures are recruited to.

## **Central Expenses**

- 3.26 Currently there is a projected underspend of £2.045m on Central Expenses. This is based on the position at year end last year and will be monitored closely.
- 3.27 In addition a number of risk provisions were written into the MTFS this year. These were as follows:

Pay Contingency	472,000
Savings Risk Contingency	2,000,000
Parking Risk Contingency	1,000,000
Accommodation cost contingency	660,000
	4,132,000

- 3.28 As can be seen from the descriptions these offset many of the overspends described above. As the year goes on and the figures become more certain it may be appropriate to release this funding into the specific budget lines. For now, they are shown as offsetting underspends.
- 3.29 Based on previous years actuals and the latest NNDR information there may be further funding achieved in year from the Collection Fund/Business Rates Pooling.

## **4. Housing Revenue Account**

- 4.1 The Housing Revenue Account is currently forecasting a £0.9m adverse variance to the budget. This will result in a reduction in the reserves and so reduced funding being available for the Capital Programme.
- 4.2 The variance has arisen as partly as a result of non-achieved savings in the cost of Repairs and Maintenance and partly as a result of reduced rental income from a changed pattern of lettings. (A decrease in the use of properties for certain kinds of higher rent lettings such as TA.) The allocation of stock is being reviewed now and this forecast may improve.
- 4.3 Significant increases in the bad debt provision budget was made in the light of the roll out of Universal Credit. This was based on information from other UC areas where arrears increased sharply following the roll out. The government has modified some aspects of UC and the Council has also put in place a range of measures to mitigate this. It is too early to assess the impact but this is being closely monitored.

## **5. London-wide Strategic Investment Pot**

- 5.1 The Council entered into the 2018/19 London-wide Business Rates Pool which is piloting 100% Business Rates Retention in London along with the Greater London

Authority, Common Council of the City of London (COLC) and the 31 other London Boroughs. The principles are embodied within a Memorandum of Understanding (MOU) endorsed by all the Leaders of London Councils and the Mayor of London.

- 5.2 The aim of the pool is to improve the well-being of the communities that the participating authorities serve in London and, by working together to, retain a greater proportion of business rate growth, further stimulate economic growth and build financial resilience. The principle of the pool is that no Authority will be worse off than it would have been under the current local finance regime over the period of the four-year settlement.
- 5.3 It was agreed within the MOU for the pilot pool, that the Common Council of the City of London (COLC) will act as the as Lead Authority and will therefore:
- make or receive payments in respect of any top ups and tariffs, levy and safety net and safety net payments to and from the MHCLG, the administer the pilot pool.
  - make or receive payments between members of the pilot pool as determined by governance arrangements
  - to administer the pilot pool in accordance with the governance arrangements.
- 5.4 The MOU also sets out that 15% of the net additional financial benefit generated through the growth in business rates collected in London would be distributed from the pilot pool as a Strategic Investment Pot (SIP).
- 5.5 Specifically, it states that the SIP shall be spent on projects that:
- contribute to the sustainable growth of London's economy and increase business rates income either directly or as a result of the wider economic benefits anticipated.
  - leverage additional investment funding from other private or public sources
  - have broad support across London government in accordance with the proposed governance process
- 5.6 COLC as the lead Authority for the pilot pool is responsible for deciding which projects should be allocated SIP funding after consultation with the GLA and London Boroughs. The principles contained within the MOU reflect that:
- both the GLA and a majority of the 32 Boroughs (two thirds of London Councils) have agreed to recommend a Strategic investment Project
  - where all Participating Authorities in a single sub-region do not agree with the decision, the decision is not agreed
  - If no majority consensus on allocation of the SIP to Strategic Investment projects can be agreed the available resources in the SIP will be rolled forward for future consideration until the resources are spent.
  - Following consultation with London Boroughs, COLC will then put forward the recommended projects to the next meeting of the Congress of Leader and the Mayor of London for approval.
- 5.7 The Council received the consultation report from COLC on 31 July 2018; the report identifies the proposed projects which are recommended for funding by the SIP Panel. The SIP consultation report is attached at Appendix 3.



- 5.8 The SIP Panel has reviewed the bids received, which total £123.4m for funding against the available Strategic Investment Pot of £50m and recommends that a total sum from the Strategic Investment Pot of £46.83m is allocated to individual bids. A summary of the recommended allocation of the SIP pot to bids by the Panel is set out below.

<b>Recommended Package by SIP Panel</b>	<b>£m</b>
South Dock Bridge	7.00
Productive Valley: South Tottenham Employment Area	2.00
Productive Valley: Investment Fund	3.00
Productive Valley: Rigg Approach	0.75
South London Innovation Corridor	8.00
Open Data Standard for Planning	0.25
Euston Recruitment Hub	3.00
West London Alliance: Skills & Productivity	3.43
West London Alliance: Investment in Digital	7.70
Local London: Investment in Fibre	7.70
South London: Multi-Purpose Internet of Things Platform	4.00
<b>Total Bids recommended</b>	<b>46.83</b>

(Further details of the bids considered and those recommended are set out in the attached SIP Consultation Report)

- 5.9 The only bid which included LBBID was the Local London bid for investment in fibre (digital connectivity) in the subregion. This seeks to undertake Full Fibre upgrade to key public sector sites that will anchor fibre investment by the commercial sector. The chosen sites (as yet undefined) will be those where there will be significant improvement in public sector service delivery and where the commercial sector will be motivated to invest.
- 5.10 Whilst Local London's bid was for £15m, only £7.7m is proposed to be approved. Given the funding pot has been estimated cautiously, the proposed response to the City of London is that whilst the proposals put forward are supported, should there be additional funding available then the Local London bid should receive the additional funds.

## **6. Budget Adjustments**

- 6.1 The Cabinet is asked to approve the following virements:

- Transfer of £104,000 from Central Expenses to Democratic Services in relation to the in-year increase to Members' Allowances, as agreed by the Assembly on 18 July 2018 (Minute 19);
- Transfer of £1.95m MTFs growth to meet the increased costs of Temporary Accommodation and the new burden created by the Homelessness Reduction Act from Central Expenses to Community Solutions allocated in line with the action plan; and

- Transfer of cleaning budgets from services occupying corporate buildings to My Place to allow these costs to be managed corporately as a single contract.

## **7. Conclusion**

- 7.1 This report indicates that the potential outturn position may lie within quite a broad range. The demand led nature of a large amount of the council's budget and the ambition of the savings programme results in a level of uncertainty. However, the best information at present suggests that without very strong management action the Council is heading for an overall overspend.

## **8. Financial Implications**

Implications completed by: Katherine Heffernan, Group Manager – Service Finance.

- 8.1 This report details the financial position of the Council.

## **9. Legal Implications**

Implications completed by: Dr Paul Feild, Senior Governance Lawyer

- 9.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

### **Public Background Papers Used in the Preparation of the Report:**

- Oracle monitoring reports

### **List of Appendices**

- **Appendix A** – General Fund Revenue budgets and forecasts.
- **Appendix B** – Housing Revenue Account budgets and forecasts
- **Appendix C** – SIP
- **Appendix D** – Virements for approval