

Summary Sheet

Cabinet and Commissioners' Decision Making Meeting – 10 April 2017

Title

February Financial Monitoring Report 2016/17

Is this a Key Decision and has it been included on the Forward Plan?

No, but it has been included on the Forward Plan

Strategic Director Approving Submission of the Report

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Ward(s) Affected

All

Executive Summary

This report sets out the financial position for the Revenue Budget at the end of February 2017 and is based on actual costs and income for the first eleven months of the financial year and forecast costs and income for the remaining one month of 2016/17.

The revenue position, compared with the revised budget approved by Council on 7th December 2016, shows a forecast overspend of £2.017m. This forecast overspend has reduced by £526k since the December monitoring report to Cabinet.

It is currently anticipated that this level of forecast overspend could be funded from a combination of in year capital receipts and capitalisation of some spend in relation to Highways.

The additional budget approval is to be funded from reserves and the extent to which in year revenue spend across the whole Council can or cannot be reduced, will affect the eventual call on reserves. The above expected position is positive in that the expected call on reserves is lower than that which was reported within the December financial monitoring report.

To help further mitigate the potential impact on reserves the robust procurement and recruitment controls remain in place.

The majority of the approved budget savings for 2016/17 have or are being achieved, the main exception being the £1m saving from the review of staff terms and conditions of employment agreed by Council in March 2016 which will not now be delivered in 2016/17. Positive, constructive discussions with the Trade Unions have been taking place about how this saving can be achieved and it is expected that the £2m FYE savings will be achieved from April 2017. The non-delivery of the 2016/17 £1m saving is reflected in the forecast outturn in this report.

There is also a significant forecast overspend (£5.375m) on the Dedicated Schools Grant (DSG), split between the High Needs Block £5.292m and the Schools Block of £0.083m. Whilst this overspend doesn't directly affect the Council's financial position at this time, this position must be addressed to avoid any risk to the Council in the future. The pressure on the High Needs block was presented to the Schools Forum meeting on March 17th, which also considered the draft SEND Sufficiency Strategy and Financial Plan which will address the remaining deficit and future level of provision. In 2017/18 the forecast deficit carry forward will be partially mitigated by the transfer of £3m from the Schools Block into the High Needs Block, leaving an estimated £2.3m deficit, which will need to be met from an expected re-basing and uplift for Rotherham of the High Needs Budget from 2018/19 following implementation of the new High Needs national Funding Formula.

Clifton Community School is now scheduled to convert to a sponsored Academy on 1st May (it was reported previously that the conversion would take place first in February and then in March 2017). The school has an estimated deficit of £1.2m. A reserve of £1.2m was created in finalising the 2015/16 accounts specifically to mitigate deficit balances falling on the Council as a result of sponsored academy conversions during 2016/17.

In response to reduced Government funding, the Council needed to find savings of £24m in 2017/18 and then needs to identify around a further £42m savings in the following two years. A robust budget for 2017/18 including £24m of savings was approved by Council on 8th March 2017.

Control over spending is critical to a robust medium term financial strategy as unplanned spending impacts on reserves levels which are the bedrock of a financially stable organisation and unplanned spending depletes reserves.

Appendix 1 to this report shows the detailed reasons for forecast revenue under and over spends by Directorate.

Recommendations

That Cabinet:

- Notes the current 2016/17 forecast overspend of £2.017m after the allocation of additional in year budget and that the Council anticipates a balanced outturn position will be achieved through a combination of continued management actions, use of in-year capital receipts and capitalisation of highways spend. (Paragraphs 3.2 -3.3)

- Notes that a detailed Dedicated Schools Grant (DSG) High Needs Sufficiency Strategy and Financial Plan to address the remaining deficit and future level of service provision were discussed and consulted upon at the 17^h March 2017 Schools Forum meeting. (Paragraph 3.15).
- Notes the approved capital programme is forecast to underspend by £9.038m in 2016/17. Underspends in the Children & Young People's Service, Regeneration & Environment and Finance and Customer Services Directorates will in the majority of cases be re-profiled into 2017/18, however the underspend in the Adult Care & Housing Directorate is the result of changes to Government policy leading to a reduction in available funding which has required a review of HRA investment. (Paragraph 3.40)

List of Appendices Included

Appendix 1 – Detailed Directorate analysis of revenue forecast under and overspends

Background Papers

Revenue Budget and Council Tax Setting Report for 2016/17 to Council – 2 March 2016

December 2016/17 Financial Monitoring Report to Cabinet – 13 February 2017

MTFS Update Report to Cabinet and Council - 14 November and 7 December 2016 respectively

Consultation with Strategic Directors

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Yes – Overview and Scrutiny Management Board

Council Approval Required

No

Exempt from the Press and Public

No

February Financial Monitoring Report 2016/17

1. Recommendations

That Cabinet:

- 1.1 Notes the current 2016/17 forecast overspend of £2.017m after the allocation of additional in year budget and that the Council anticipates a balanced outturn position will be achieved through a combination of continued management actions, use of in-year capital receipts and capitalisation of highways spend. (Paragraphs 3.2-3.3)
- 1.2 Notes that a detailed Dedicated Schools Grant (DSG) High Needs Sufficiency Strategy and Financial Plan to address the remaining deficit and future level of service provision were discussed and consulted upon at the 17^h March 2017 Schools Forum meeting. (Paragraph 3.15)
- 1.3 Notes the approved capital programme is forecast to underspend by £9.038m in 2016/17. Underspends in the Children & Young People's Service, Regeneration & Environment and Finance and Customer Services Directorates will in the majority of cases be re-profiled into 2017/18, however the underspend in the Adult Care & Housing Directorate is the result of changes to Government policy leading to a reduction in available funding which has required a review of HRA investment. (Paragraph 3.40)

2. Background

- 2.1 As part of its performance and control framework the Council is required to produce regular reports for the Strategic Leadership Team and Cabinet to keep them informed of financial performance on a timely basis such that where necessary, actions can be agreed and implemented to bring spend in line with the approved budget for the financial year.
- 2.2 Delivery of the Council's Revenue Budget and Medium Term Financial Strategy, and Capital Programme within the parameters agreed by Council is essential if the objectives of the Council's Policy Agenda are to be achieved. Financial performance is a key element within the assessment of the Council's overall performance framework.
- 2.3 This report sets out the financial position at the end of February and is based on actual costs and income for the first eleven months of the financial year and forecast costs and income for the remaining one month of 2016/17.
- 2.4 The current position shows a forecast revenue overspend of £2.107m after taking account of the allocation of additional budget by Council on 7th December 2016 and after currently identified management actions. It is anticipated that this overspend can be met by flexible use of in-year capital receipts and capitalisation of highways spend. There is also a significant overspend on DSG which has now reached over £5.3m, although this forecast overspend has slightly improved by £300k since the December report.

- 2.5 The additional 2016/17 budget approval has to be funded and the extent to which in-year revenue spend across the whole Council cannot be reduced, will inevitably impact the Council's reserves and future financial sustainability.
- 2.6 The majority of the approved budget savings for 2016/17 are being achieved, the main exception being the £1m saving from the review of staff terms and conditions of employment agreed by Council in March which will not now be delivered in 2016/17. Positive, constructive discussions with the Trade Unions have been taking place about how this saving can be achieved and it is expected that the £2m full year effect saving for 2017/18 will be achieved. The non-delivery of the £1m saving in the current year is reflected in the forecast outturn in this report.
- 2.7 To further reduce the requirement to call on reserves the robust procurement and recruitment controls remain in place.
- 2.8 All actions implemented will have due regard for the safeguarding of vulnerable children and adults, the needs of clients and the potential impact on the citizens of Rotherham.
- 2.9 There is also a significant forecast overspend (£5.375m) on the Dedicated Schools Grant (DSG) High Needs Block. There is also a significant forecast overspend (£5.375m) on the Dedicated Schools Grant (DSG), split between the High Needs Block £5.292m and the Schools Block of £0.083m. This is a forecast increase in the High Needs overspend of £4.3m in an eleven month period. Options for consultation regarding addressing the High Needs overspend were taken to Schools Forum on the 9th December.
- 2.10 Clifton Community School is now scheduled to convert to a sponsored Academy on 1st May (it was reported previously that the conversion would take place first in February and then in March 2017). The school has an estimated deficit of £1.2m. A reserve of £1.2m was created in finalising the 2015/16 accounts specifically to mitigate deficit balances falling on the Council as a result of sponsored academy conversions during 2016/17.
- 2.11 In response to reduced Government funding, the Council needs to reduce its net spending by around £42m for the two years 2018/19 and 2019/20. It also has to deliver savings of £24m in 2017/18. A robust budget for 2017/18 was approved by Council on 8th March. Control over spending is critical to a robust medium term financial strategy as unplanned spending impacts on reserves levels which are the bedrock of a financially stable organisation and unplanned spending depletes reserves.
- 2.12 Appendix 1 to this report shows the detailed reasons for forecast under and over spends by Directorate.

3. Key Issues

Revenue

3.1 Table 1 below shows the summary forecast revenue outturn position by Directorate. The table shows the forecast outturn position after any management actions which have already been quantified and implemented. The annual budgets have been updated to include the additional Council budget approvals, agreed 7th December 2016 and the Adult Social Care budget includes the £1m social care contingency budget which transferred from Central Services following Cabinet approval on 12th December. A more detailed analysis of each of the Directorate's forecast under and overspends is included in Appendix 1.

3.2 Table 1 below also shows the change in forecast outturn by Directorate/Service between the December and February budget monitoring cycles.

Table 1: February Cumulative - Forecast Revenue Outturn 2016/17

Directorate / Service	Revised Annual Budget 2016/17	Forecast Outturn 2016/17	Forecast Variance (over (+) / under (-) spend) AFTER management actions	Change in Variance Dec to Feb (- = better / + = worse)
	£'000	£'000	£'000	£'000
Children & Young People's Services	63,120	64,850	+1,730	+150
Adult Care & Housing	68,212	71,501	+3,289	-223
Regeneration & Environment Services	46,427	44,883	-1,544	-267
Finance & Customer Services	14,790	14,217	-573	-153
Assistant Chief Executive	5,229	5,099	-130	-33
Capital Financing, Levies and Central Services	10,199	9,444	-755	0
SUB TOTAL	207,977	209,994	+2,017	-526
<i>LESS:</i>				
Use of Capital Receipts Flexibilities	0	-- 817	-817	+526
Highways Capitalisation	0	-1,200	-1,200	0
TOTAL (after adjustments)	207,977	207,977	0	0
Public Health (Specific Grant)	17,157	17,157	0	0
Dedicated Schools Grant (Non Delegated)	20,440	25,815	+5,375	-299
Housing Revenue Account (HRA)	83,584	77,415	-6,169	-1,799

- 3.3 It should be noted the above position is after the proposed use of up to £8.456m of reserves for 2016/17 as agreed by Council in December, the utilisation of in-year capital receipts flexibilities and the capitalisation of £1.2m Highways related spend. Within the final outturn position, the Council will seek to maximise the use of capital receipts flexibilities and capitalisation options, in order that the final call on reserves can be reduced as much as possible. This approach will allow the Council to achieve optimum protection of its current levels of reserves to support delivery of the approved 2017/18 budget and the Medium Term Financial Strategy to 2019/20. The following sections (paragraphs 3.4 to 3.37) provide key reasons for the forecast level of annual revenue under or overspend within Directorates. More detailed information is included in Appendix 1.

Children & Young People's Directorate (+£1,730k forecast overspend)

- 3.4 The February revenue full year forecast is £1.730m over revised budget. The forecast overspend has increased by £150k since the December Cabinet report principally due to the increased cost of placements although this has been partially mitigated by additional grant income.
- 3.5 The in-year budgetary position for Children's Services has been challenging and reflects the national picture of growing looked after children (LAC) numbers. The original LAC budget would support approximately 400 placements, 86 less than Rotherham's total of 486 LAC as at 28th February 2017. Throughout the year there has been a requirement to engage a significant number of agency social workers and team managers to fill vacant posts and to secure the right knowledge, skills and leadership and reduce average caseloads to a reasonable level. The staffing budget pressure will gradually reduce as new social care employees are appointed and allocated appropriate caseloads.
- 3.6 First Response, which includes Rotherham's Multi-Agency Safeguarding Hub (The MASH), and the Child Sexual Exploitation Team (EVOLVE) are examples of services that have had to engage additional agency staff over the approved social care establishment budget. These services alongside other pressure areas such as locality social work teams, Safeguarding and Social Care Management have largely been addressed through the additional funding for demand cost pressures ratified by Council on 7th December. Alongside this additional investment, Children's Services have been proactively pursuing a number of bids for external resources, a number of which have proved successful. E.g. 'Immediate Need Funding' from the Department for Education's Child Protection and Safeguarding Unit (£243k) and 'Life Chances Fund' Development Grant from the Big Lottery Fund (£38k).

- 3.7 The Children in Care Service is projecting an over spend of £2.326m. The adverse budget variation is due to additional staffing costs for reasons outlined above and the continuing pressure on the LAC placements budget which includes the cost of Independent Fostering Placements, Out of Authority provision and Fostering Allowances. Although numbers are slightly lower than previously reported there has been, in some cases, the need to move existing clients to more expensive provision to meet specialist care needs requirements. If numbers rise or existing clients are assessed as needing more expensive specialist provision there will be further pressure on social care budgets and a risk that the reported position will worsen.
- 3.8 At the end of September with actual LAC numbers at 448, the service and finance agreed a forward projection up to 460 by the end of March 2017 based on demand over the preceding period. There has been a significant increase in demand beyond the level forecast – the current number of LAC is 486 (28th February). This forecast outturn has been re-modelled to include a phased growth to 500 LAC by the end of the financial year. Current budget proposals seek to address the growing number of LAC and change the proportion of placement settings in favour of in-house foster care.
- 3.9 Expenditure on Leaving Care allowances has doubled over the last two years. Remedial action has been put in place to address the rising costs and includes: reviewing placements to ensure provision is appropriate; providing lower cost accommodation for over 18s through a transitional landlord scheme and in partnership with Housing; and increasing lower cost provision via new providers.
- 3.10 The forecast outturn on the Special Educational Needs and Disabilities (SEND) budget, within Education and Skills, is now an under spend of £269k. There remains a forecast overspend on School Effectiveness due to reduced income assumptions (£160k) although this is offset by savings arising from vacancy management within Children's centres (-£258k).

CYPS Recovery Strategy Update

- 3.11 The service is committed to implementing management actions to mitigate the impact of the pressures reported above and has identified further in-year savings which includes a further vacancy freeze (£89k), placing on hold planned spend on publicity (£10k) and transferring further allowable expenditure to DSG (£162k).
- 3.12 Excellent progress has been made in highly effective recruitment to permanent positions this year through the success of the CYPS Resourcing Team who have brought new and innovative methods to the search for the best social care professionals. There can often be a period of between two and four months from the end of the recruitment process to a new officer starting in post. The Social Care Service aim to release agency staff within two weeks of a permanent employee's start date. Recruitment activity was particularly successful over the summer and into the latter part of the financial year.

Dedicated Schools Grant

3.13 The Directorate is forecasting an over spend on the Dedicated Schools Grant (DSG) of £5.375m:

- Early Years Block: £0.000m Balanced
- Schools Block: £0.083m Overspend
- High Needs Block: £5.292m Overspend

3.14 The latest High Needs position, a pressure of £5.292m, was presented to Schools Forum on the 17th March 2017. The meeting also discussed the draft SEND Sufficiency Strategy and Financial Plan which will address the remaining deficit and future level of provision.

3.15 The forecast deficit carry forward will be partially mitigated in 2017/18 following the decision to transfer £3m of funding from the Schools Block into the High Needs Block. This will leave an estimated £2.3m revised deficit position which will need to be met from an expected re-basing, and uplift for Rotherham, of the High Needs Budget from 2018/19 following implementation of the new High Needs National Funding Formula.

Adult Services (+£4.130m forecast overspend) & Housing (-£841k forecast underspend)

3.16 The Directorate is currently forecasting an overspend of £3.289m across the two main functions of Adult Care and Housing after mitigating actions agreed by the Directorate Management Team. This position also reflects the allocation of the £1 million Social Care contingency budget to Adult Social Care as approved by Cabinet on 12th December 2016. This latest forecast shows a reduction in overspend of £223k compared to that reported in December.

3.17 Adult Care Services are currently forecasting an overall overspend of £4.130m after mitigating actions. The main budget pressures continue to be in respect of Direct Payments and Managed Accounts, Residential and Domiciliary care across all client groups.

3.18 The main budget pressure within the Directorate continues to be the increased demand for Direct Payments and Managed Accounts (£3.1m). This forecast pressure includes the full year impact in 2016/17 of the 29% increase in clients receiving a Direct Payment in 2015/16. The increase in client base is due to a mixture of demographic pressures and clients moving from a domiciliary care contract. In total this has seen 180 new clients in 2015/16, plus an additional net increase of 24 (+1.9%) new clients since April 2016.

- 3.19 A task group established to review Direct Payments is still in place and continues to analyse high cost care packages to ensure they are appropriately aligned to client need and to review the processes and procedures associated with assessment to ensure they are fit for purpose. An action plan is being developed by senior managers to address the ongoing issues, which includes reviewing Managed Accounts and capacity within the service to carry out the reviews. Assumptions around the financial impact of this are reflected in the forecast outturn.
- 3.20 There are also pressures on the residential and nursing care budgets across all client groups as a result of an increase in the average cost of placements and lower than forecast 'Continuing Health Care' income contributions against the approved budget (forecast overspend of £2.4m across all client groups). The Assistant Director of Commissioning is providing oversight on the review of Learning Disability high cost placements.
- 3.21 There is also a forecast budget pressure of £1.2m in respect of the provision of Domiciliary Care across all client groups due to an increase in the number of clients (119) and an 11% increase in the number of commissioned and delivered hours plus a recurrent income pressure on fees and charges (£300k).
- 3.22 The above forecast overspends are being partially reduced by projected underspends within Learning Disability Day Care Services and Supported Living provision due to higher than anticipated staff turnover and underspends on contracts (-£1.2m) and higher than anticipated staff turnover across social work teams (-£590k). Further underspends are forecast within Enabling and Older People Day Care and Community Support (-£256k) due to vacancies and savings on transport plus a review of the training programme delaying some training into 2017/18 (-£85k). There are also underspends within Commissioning and Performance (-£124k) due to vacancies pending the implementation of a new structure and higher than anticipated staff turnover within Safeguarding services (-£233k).
- 3.23 Neighbourhood services' (Housing) latest forecast is an underspend of -£841k mainly due to the recruitment to staff vacancies being put on hold pending the outcome of a review of the Neighbourhood Partnerships service plus further additional income from the Furnished Homes scheme. The overall forecast also includes an underspend of £41k in respect of the Member's Community Leadership Budget which may be requested for carry-forward into 2017/18 in line with previous years.

Adult Care & Housing – Recovery Strategy Update

- 3.24 The demand for residential placements is reducing however budget pressures remain due to the increasing cost of care packages. However, the demand for domiciliary care and direct payments is increasing. There are also underlying budget pressures from unachieved budget savings from previous years, for example, Continuing Health Care funding and a reduction in the level of client contributions to services after financial assessment. A number of management actions have been put in place to reduce the forecast overspend within the Adult Care and Housing Directorate.

- 3.25 The continued review of out of area and high cost care packages across all services to identify opportunities to reduce costs and rigorously pursue all Continuing Health Care funding applications with the Clinical Commissioning Group remains operational. Weekly budget meetings are held with senior managers to review in detail the budget forecasts, monitor demographic pressures and identify further savings opportunities and mitigate the pressures. All spend is now being authorised by Heads of Service and above. Further progress continues on the delivery of the Adult Services Development Programme to improve the outcomes for service users and this is largely on track to deliver the 2016/17 approved savings included in the budget setting process.
- 3.26 Other management actions include the introduction of a Practice Challenge Group (PCG) which meets bi-weekly to review and challenge all care assessments prior to discussion with users and carers.
- 3.27 Further investment was approved by Council in December for a brokerage team and additional resources to review Direct Payments and Managed Accounts, which should lead to further reductions in expenditure in the new financial year.

Public Health (Forecast balanced outturn)

- 3.28 The forecast outturn is to spend to budget at this stage including a transfer to the Public Health Reserve. This forecast outturn takes into account the Government's 2016/17 reduction in grant funding which has largely been mitigated through the use of the balance on the Public Health grant reserve.

Regeneration and Environment Services (-£1.544m forecast underspend)

- 3.29 The Regeneration and Environment Directorate Management Team have reviewed the forecast outturn position following the February monitoring cycle. The Directorate is now reporting a forecast underspend of -£1.544m. This is a further improvement of £267k on the position reported in December and now includes a forecast pressure on winter maintenance (+£141k). Previously this had only been reported as a risk.
- 3.30 Detailed information on the key forecast variances that make up the overall underspend of £1.544m is included in Appendix 1. This net underspend consists of a number of overspends and underspends; in summary, the main forecast overspends within the Directorate remain within Estates (£162k), Street Scene Services (£82k), Planning and Building Control (£63k), and Community Safety and Streetscene Corporate Accounts (£62k). These forecast overspends are fully mitigated by forecast underspends in other areas such as Facilities Management (-£711k), Rotherham Investment and Development Office (RIDO) (-£290k), Safer Neighbourhoods (-£265k), Facilities Services (-£218k), Theatres (-£130k) and the Business Unit (-£101k). Savings of £140k in Customer Services and Libraries (£167k) are fully mitigating the balance of savings that have not been realised in Culture and Customer Services in 2016/17.

- 3.31 The current Directorate forecast underspend includes a forecast pressure on the Winter Maintenance budget of +£141k. Without this pressure the Directorate would be forecasting an underspend of -£1.685m.

Finance & Customer Services (-£573k forecast underspend)

- 3.32 Overall the Directorate is forecasting an underspend of -£573k. This is an improvement of £153k since the December monitoring report and is largely as a result of the spend moratorium. The main pressures relate to a forecast overspend on statutory and planning notices (£45k) and unachievable income targets within central and planned print within the Business Unit.

- 3.33 The above Directorate pressures are fully mitigated by underspends within Electoral Services (-£25k), staffing underspends within Procurement due to vacant posts (-£111k), reduced pension charges and training budget underspends (-£23k), staffing savings from vacancies within Internal Audit (-£35k), Financial Services (-£140k), Customer, Information and Digital Services (CIDS) (-£56k) and an underspend in the Revenues and Benefits service from vacant posts and maximising flexibility in the use of grant funding (-£267k).

Assistant Chief Executive (-£130k forecast underspend)

- 3.34 Overall the Directorate is forecasting to deliver an underspend of -£130k; a further improvement of £33k since the December report. However, there are various forecast pressures and savings within this that should be noted. The main forecast pressure in Communications and Media of £112k is in respect of additional staff costs (£56k), subscription and system costs (£37k) and reduced income generation within the Design Studio (£19k). There are also increased staff cost pressures due to increased management support arrangements (£34k).

- 3.35 These pressures are fully mitigated by staff cost savings within Policy and Partnerships -£129k which includes additional one year funding from Local Government Association (LGA) -£31k and reduced costs relating to members including Member Allowances -£164k, vacant posts within the HR and Payroll service and from a number of management actions agreed across the Directorate to ensure spend is minimised where it is appropriate to do so.

Corporate & Central Services (-£755k forecast underspend)

- 3.36 The Corporate and Central services forecast assumes that a £755k underspend will be delivered, and will be used to help mitigate the Council's overall financial position.

This net forecast underspend includes key components:

- Non-delivery in 2016/17 of the budgeted savings in relation to changes in staff terms & conditions of £1m;
- Cost of legal investigations (£140k);
- A forecast £1.4m underspend on the capital financing budget as a result of the Council being able to reschedule a market loan, changing interest rate forecasts post-Brexit Referenda, and a reduced borrowing need in year;
- Less superannuation payments to the South Yorkshire Pensions Fund than budgeted creating a forecast saving of £338k this financial year;

- The cost of the Integrated Transport Authority and Coroners levies are less than budgeted by £244k; and
- £304k forecast reduction in the level for Education Support Grant from the Department for Education due to the increased number of schools now expecting to convert to academies by the year end. (The grant is scaled back each quarter as further schools convert).

Housing Revenue Account (HRA) – (Forecast -£6.169m underspend)

- 3.37 The Housing Revenue Account is a statutory ring-fenced account that the Council has to maintain in respect of the income and expenditure incurred in relation to its council dwellings and associated assets. The forecast for the HRA is a transfer to reserves of -£6.169m mainly due to delays in the strategic acquisitions programme (-£2.7m) until 2017/18. There is also a forecast underspend in respect of housing repairs (-£0.9m) in respect of empty homes due to faster void turnaround, supervision and management (-£0.5m) due to higher than expected staff turnover and underspends on non-pay budgets, lower than anticipated HRA capital financing costs (-£231k), and a forecast underspend on the provision for bad debts (-£296k). There is also forecast additional rental income due to more property acquisitions than budgeted plus a reduction in loss of income through void properties (-£950k) plus additional income from charges for services and facilities in respect of the Furnished Homes Scheme (-£0.4m).

Capital Programme

Background

- 3.37 The Council's Capital Strategy and Capital Programme (2016-2021) were approved by Council on the 2nd March 2016. Further updates to the Capital Programme were approved by the Cabinet/Commissioners Decision Making Meeting of the 11th April 2016 in relation to the Housing Investment Programme 2016/17 and the CYPs Capital Programme 2016-2018. In addition, Cabinet/Commissioners Decision Making Meeting of the 11th July 2016 approved carry forwards totalling £4.363m from 2015/16 into the 2016/17 Capital Programme. In year financial monitoring reports have included requests for variations to the Capital Programme which have been approved by Council.
- 3.38 The Council's Capital Strategy (2016-2021) has now been the subject of a review and refresh, with the Capital Strategy (2017-2022) approved by full Council on the 8th March 2017. Council approved a total Capital Strategy of £280.240m. This requires prudential borrowing of £49.636m to fund non-HRA schemes over the five year period, for which provision has been made in the revenue budget for the associated financing costs.

Current Summary Position

- 3.39 The table below shows the estimated outturn position for the approved Capital Programme (2016-2017) by Directorate. This is showing a forecast underspend of £9.038m in 2016/17. The underspend in the Adult Care & Housing Directorate follows a review of current and future years HRA investment as a result of changes to Government policy leading to a reduction in available funding. Underspends in 2016/17 in the Regeneration & Environment, Children & Young People's Services and Finance and Customer Services Directorates will in the majority of cases be re-profiled into 2017/18. The key reasons for the underspends are identified in the Directorate commentaries below.

Table 2: February Cumulative - Forecast Capital Outturn 2016/17

Directorate	Current Year		
	Budget £	Forecast £	Variance £
Children & Young Peoples Services	7,970,598	6,863,579	-1,107,019
Adult Care & Housing	31,184,956	29,256,119	-1,928,837
Regeneration & Environment	20,328,169	14,951,134	-5,377,035
Finance & Customer Services	6,413,039	5,788,295	-624,744
Total	65,896,762	56,859,127	-9,037,635

Directorate Programme Area Commentaries

Children and Young People's Services (CYPS) Capital Programme

- 3.40 The CYPS Capital Team's priorities for the available capital grant funding are;
- Schools to be kept safe, dry and warm for all its pupils;
 - Sufficient pupil places for a rising population.
- 3.41 There are two main grant funding streams available, the details of which are below:
- **School Condition Allocation** is a grant fund that is devolved to local authorities to improve the infrastructure of the school estate in line with the local asset management plans. It places the emphasis on the local authority to prioritise essential building condition work within their school estate; which includes primary schools, secondary schools, special schools, City Learning Centres and Children's Centres. The projects which will benefit from this grant funding over the period are the capital maintenance projects. A budget is allocated each year and the individual school priorities are assessed according to need and the priority of keeping schools safe, dry and warm.

- **Basic Need** grant funding enables local authorities to provide additional school places to cope with growing numbers. This grant is allocated by the Department for Education (DfE) over 3 years and is in recognition of the unprecedented increase in pupil numbers being experienced by many local authorities.

3.42 The CYPS programme forecast outturn for 2016/17 is £6.864m, which represents a forecast underspend of £1.107m. The key underspends within the Directorate are as follows. A re-profiling of expenditure on the Special Educational Needs provision of £450,000 into 2017/18, an underspend of £185,000 on the capitalisation of Schools PFI lifecycle expenditure, following the provision of information on actual spend by the PFI contractor and a re-profiling of expenditure of £125,000 on the Hutton Park scheme into 2017/18.

Adult Care and Housing (ACH) Capital Programme

3.43 The key element of the ACH programme is the Annual Housing Investment programme to maintain decency, carry out stock improvements, aids and adaptations and new stock provision, energy efficiency and environmental works to our 21,000 Council homes. These properties currently meet Rotherham decent homes plus standards and we continue to improve access and reduce CO2 emissions.

3.44 There have been significant national policy changes since the original Housing Investment Programme was set for 2016-17. These include a rent reduction of 1% per year for the period 2016-17 to 2019-20 and the introduction of a High Value Property Levy. As a result of these changes, there has already been a significant reduction in forecast income to the HRA. The pressures on HRA budgets will increase further once the Council has been informed from government how the High Value Property Levy will be calculated. Based on information published to date this may result in a charge of up to £3.5m per annum.

3.45 The policy changes in the Housing and Planning Bill and Welfare reform bill, will potentially also increase Right to Buy sales. Although this will generate capital receipts, over the longer term income to the HRA will reduce. This will mean there are fewer resources to invest in Council housing throughout the borough. As a result the Housing Investment Programme for 2016-17 and 2017/18 has been reduced to reflect this. Alongside the review of capital costs the Housing Service are also embarking on a review of HRA revenue costs.

3.46 The Adult Care and Housing (ACH) Capital Programme 2016/17 forecast programme outturn is £29.256m, which represents a projected underspend of £1.929m. The majority of the underspend relates to Aids and Adaptations (£695,000), Strategic Acquisitions (£501,000), External Insulation (£238,000) and Major Voids (£265,000).

Regeneration and Environment

3.47 The key themes for capital expenditure within the Regeneration and Environment (R&E) Directorate include:

- Investment in Highways infrastructure projects and maintenance. This includes £2m investment in 2016/17 in the Borough's unclassified roads network, as part of a programme to permanently repair 50km of the network, building on the £3m investment in 2015/16 with works being clearly targeted at maximising the improvement to the durability and condition of the network.
- Works focussed on maintaining the operational functionality of Council-owned buildings such as office spaces, schools, markets, libraries and museums. This includes works to CYPs properties (£900,000).

3.48 The R&E forecast programme outturn is £14.951m, which represents an underspend of £5.377m. The majority of this spend will be re-profiled into 2017/18. The underspends are across the programme as a whole, the main underspends being as follows.

- Issues with the SCR approval processes in respect of the Sustainable Transport Exemplar Programme (STEP 2), have led to delays in projects commencing. A forecast underspend of £732,000 on the programme in 2016/17 will be carried forward into 2017/18.
- The £499,000 allocation for Brinsworth Library will be re-profiled into 2017/18.
- A number of projects within the Corporate Property Unit have not yet commenced. These include the Maltby Library Relocation (£275,000), Rother Valley Country Park Replacement Heating (£250,000) and further works at Bailey House (£295,000).
- In addition, there has been a saving on the acquisition of Forge Island of £277,000 as the result of the letting of the demolition contract, the cost of which was significantly reduced by income from the salvage of materials. Further, properties at Riverside Precinct have not yet been acquired.

Finance and Customer Services

3.49 The Finance and Customer Services programme 2016/17 forecast outturn is £5.788m, which represents a forecast underspend of £625,000. Projects within this Directorate relate to the Council's ICT and Digital Strategy. The underspend relates to the Computer Refresh Programme (£440,000) and the Replacement of Server Equipment (£145,000). Both of these budgets will be re-profiled into 2017/18. The forecast outturn position includes £2.3m of transformational expenditure, funded by capital receipts, using the Government's capital receipts flexibilities.

3.50 The following additional Projects are not yet included in the Capital Programme:

- Acquisition of Advanced Manufacturing Park Technology Centre – A paper to approve Sheffield City Region funding for this acquisition is due to go to a meeting of the Combined Authority on the 22nd March. Subject to this approval and finalisation of the due diligence being undertaken by this Council, the acquisition, fully funded by grant, is expected to take place by the 31st March 2017.

- Capitalisation opportunities – It is currently anticipated that £1.2m of Highways expenditure will be capitalised. This will be finalised as part of the closedown of the Council's accounts. Other capitalisation opportunities that are not currently reflected in the monitoring position may also be considered as part of the year end process.

Funding of the Capital Programme

3.51 The table below shows the current forecast outturn position for the funding of the approved Capital Programme (2016/17) by Directorate. This reflects the forecast underspend of £9.038m in 2016/17.

Table 3 February forecast outturn for Capital Funding

Funding Stream	Current Year		
	Budget £'000	Forecast £'000	Variance £'000
Grants And Contributions	17,629	16,223	-1,406
Major Repairs Allowance	20,739	19,906	-833
Prudential Borrowing	14,376	10,841	-3,535
Revenue Contribution	5,797	4,739	-1,058
Usable Capital Receipts	7,356	5,150	-2,206
Total	65,897	56,859	-9,038

Collection Fund

3.52 The Collection Fund is the technical term for the statutory fund into which Council Tax and Business Rates income and costs are accounted for. It is forecast that the budgeted level of Council Tax and Business Rates will both be achieved.

4. Options considered and recommended proposal

4.1 With regard to the current forecast revenue overspend, significant management actions have been implemented (as referred to in paragraph 2.7) and the impact of these will be included in future financial monitoring reports to Cabinet.

4.2 It is inevitable that, to the extent that expenditure cannot be reduced in year or be legitimately capitalised, there will be an impact on the Council's reserves.

5. Consultation

- 5.1 Budget Managers, Holders and Operators across the Council and the Strategic Leadership Team (SLT). Regular budget challenge meetings are taking place to review the forecast positions for each Directorate before they are finalised with the aim of improving the Council's overall forecast position. These involve each Directorate Management Team, the relevant Cabinet Members, the Cabinet Member for Finance and the Assistant Director of Finance.
- 5.2 The continuing approach to treasury management has been discussed with the Council's External Treasury Management Advisors, Capita Asset Services, who have confirmed that this is a prudent approach given current market conditions.

6. Timetable and Accountability for Implementing this Decision

- 6.1 Strategic Directors, Managers and Budget Holders will ensure continued close management and scrutiny of spend for the remainder of the financial year.

7. Financial and Procurement Implications

- 7.1 There is currently a projected overspend of £2.017m and specific financial details and implications of this overspend and plans to deal with it are set out within section 3 of this report. It is imperative that robust controls remain in place to minimise the required call on reserves.
- 7.2 The Council needs to deliver savings and cost reductions of £24m in 2017/18 and around a further £42m in the following two financial years.. .

8. Legal Implications

- 8.1 No direct implications.

9. Human Resources Implications

- 9.1 No direct implications.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 This report includes reference to the cost pressures on both Children's and Adults Social care and also refers to investments in those services.

11. Equalities and Human Rights Implications

- 11.1 No direct implications.

12. Implications for Partners and Other Directorates

- 12.1 No direct implications. As management actions are developed some of these may impact Partners. Timely and effective communication will therefore be essential in these circumstances.

13. Risks and Mitigation

- 13.1 At a time of economic difficulty and tight financial constraints, managing spend in line with the Council's Budget is paramount. Careful scrutiny of expenditure and income across all services and close budget monitoring therefore remain a top priority if the Council is to deliver both its annual and medium term financial plans while sustaining its overall financial resilience.
- 13.2 Any potential further cost of CSE claims over and above that already provided for in the 2015/16 accounts or identified in-year to date is not included in this report.
- 13.3 There is a risk that the costs falling on the Council for sponsored academy conversions in- year may exceed the funding set aside for this purpose.
- 13.4 Although both Council Tax and Business Rates collection levels are on target there is a minimal risk that this could change during the remaining months of the year.
- 13.5 The Council's 2016/17 Budget included a requirement to fund the first £2m of severance costs from in-year capital receipts. The actual level of capital receipts for 2016/17 for the first eleven months of 2016/17 is £2.320m. It is unlikely that there will be further significant capital receipts in the final month of 2016/17. The in-year receipts are planned to be used to help mitigate some of the forecast overspend in this report and to reduce the extent to which the Council needs to use reserves to deliver a balanced financial outturn for 2016/17.

14. Accountable Officer(s)

Pete Hudson – Chief Finance Manager

Approvals Obtained from:-

Strategic Director of Finance and Customer Services:- Judith Badger

Assistant Director of Legal Services:- Dermot Pearson

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