

Summary Sheet

Cabinet and Commissioners' Decision Making Meeting – 10 July 2017

Title

May Financial Monitoring Report 2017/18

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

No

Strategic Director Approving Submission of the Report

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Report Author(s)

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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 May 2017 and is based on actual costs and income for the first two months of 2017/18 and forecast for the remainder of the financial year. This is the first of a series of monitoring reports for the new financial year which will continue to be brought forward to Cabinet and Commissioners on a regular basis.

Delivery of the Council's Revenue Budget and Medium Term Financial Strategy within the parameters agreed at the start of the current financial year 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.

As at May 2017 the Council has a forecast overspend on General Fund of £6.9m. The majority of the £24m budget savings approved within the 2017/18 are being achieved. £11.9m of those savings are Directorate budget savings. However, in addition to those budget savings, Directorates also have to achieve £5.4m of budget savings in 2017/18 which were agreed in previous budgets. Total Directorate savings for 2017/18 therefore are £17.3m. The current position is that around £5.3m of those total savings are at risk of not being achieved in this financial year (and are reflected in the current overspend projection). Work continues to identify alternative or additional savings in order to maintain a balanced budget position.

Management actions also continue to address areas of overspend. The overall budget position will continue to be monitored closely with regular updates on progress in maintaining a balanced budget position reported regularly through these Financial Monitoring reports.

The projected outturn position also assumes that the savings of £1.1m for 2017/18 set against staff terms and conditions of employment are met from Directorate staffing budgets. The process for identifying and capturing those savings against workforce budgets is currently being agreed.

The forecast overspend should be set against a backdrop of the Council having successfully addressed cost pressures of £138m over the last six financial years and having to save a further £24m in the current year and to deliver an additional £42m in efficiencies and savings in the following two financial years in order to balance the Council's General Fund Revenue Budget by 2019/20.

A significant in-year pressure of £4.880m on the Dedicated Schools Grant (DSG) High Needs Block continues. A recovery strategy set in place last year will however resolve £3m of the deficit and mitigate the in-year pressure through a series of measures including: a revised Special School funding model; a review of high cost out of authority education provision with a view to reducing cost and moving children back into Rotherham provision where possible; and a review of inclusion services provided by the Council. Whilst this pressure does not directly affect the Council's financial position at this time it is imperative that the recovery strategy is implemented in order to address this position and avoid any risk to the Council in the future.

Control over spending is critical to maintaining a robust Medium Term Financial Strategy and avoiding unplanned spending impact on the Council's reserves. All Services continue to develop mitigating actions and alternative savings to compensate for financial pressures and delays in delivering the full amount of savings. The financial monitoring report to Cabinet in September will provide updates on these actions.

Recommendations

That Cabinet:

- Notes the current forecast overspend for 2017/18 of £6.9m.
- Notes that management actions continue to be developed to address areas of overspend and to identify alternative and additional savings to mitigate shortfalls in achieving planned savings in 2017/18.
- Notes that a detailed Dedicated Schools Grant (DSG) Recovery Strategy which will transfer £3m in 2017/108 to reduce the forecast High Needs Block deficit and mitigate the in-year pressure through a series of measures has been set in place. .

- Notes that the Capital Programme position and Treasury Management key indicators for the first quarter of 2017/18 will be reported as part of the July monitoring cycle.

List of Appendices Included

None

Background Papers

Revenue Budget and Council Tax Setting Report for 2017/18 to Council 8th March 2017

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

1. Recommendations

That Cabinet

- Notes the current forecast overspend for 2017/18 of £6.9m.
- Notes that management actions continue to be developed to address areas of overspend and to identify alternative and additional savings to mitigate shortfalls in achieving planned savings in 2017/18.
- Notes that a detailed Dedicated Schools Grant (DSG) Recovery Strategy which will transfer £3m in 2017/108 to reduce the forecast High Needs Block deficit and mitigate the in-year pressure through a series of measures has been set in place. .
- Notes that the Capital Programme position and Treasury Management key indicators for the first quarter of 2017/18 will be reported as part of the July monitoring cycle.

2. Background

2.1 As part of its performance and control framework the Council is required to produce regular and timely reports for the Strategic Leadership Team and Cabinet to keep them informed of financial performance on a timely basis so that, where necessary, actions can be agreed and implemented to bring expenditure in line with the approved budget for the financial year.

- 2.2 Delivery of the Council's Revenue Budget, 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 Control over spending is critical to a robust Medium Term Financial Strategy (MTFS) to avoid unplanned spending impact on the Council's reserves. The Council's current MTFS identified that, 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. The MTFS is being reviewed and updated to report back to Cabinet in late Summer.
- 2.4 This report is the first financial monitoring report for 2017/18, which sets out an early view of the forecast revenue budget financial position based on actual cost and income for the first two months of the financial year and forecast year end position. Reporting on the Council's Capital monitoring will start with information from the June quarter and future reports will include details of capital spending and the projected capital outturn position
- 2.5 The current revenue position after 2 months shows a forecast revenue overspend of £6.9m.

3. Key Issues

- 3.1 Table 1 below shows the summary forecast revenue outturn position by Directorate. The table shows the forecast outturn position after management actions which have already been quantified and implemented.

Table 1: May Cumulative - Forecast Revenue Outturn 2017/18

Directorate / Service	Revised Annual Budget 2017/18	Forecast Outturn 2017/18	Forecast Variance (over (+) / under (-) spend) AFTER management actions
	£'000	£'000	£'000
Children & Young People's Services	62,332	63,988	+1,656
Adult Care & Housing	62,052	67,410	+5,358
Regeneration & Environment Services	43,940	43,940	0
Finance & Customer Services	13,264	13,219	-45
Assistant Chief Executive	6,259	6,246	-13
Capital Financing, Levies and Central Services	16,979	16,979	0
SUB TOTAL	204,826	211,782	+6,956
Public Health (Specific Grant)	16,734	16,734	0
Dedicated Schools Grant	106,312	111,192	+4,880
Housing Revenue Account (HRA)	84,564	84,459	-105

Directorate Services Savings of £11.9m were included in the 2017/18 Budget, in addition to £5.4m of savings agreed in previous budgets for delivery in 2017/18. The following amounts from that total savings of £17.3m have been identified as currently being at risk of not being achieved in 2017/18 and are reflected as such in the projected outturn position.

- CYPS - Business Support £0.4m
- Adult Care and Housing – £4.1m
- Regeneration & Environment Services - £0.6m
- Finance & Customer Services - £0.2m

The following sections (paragraphs (3.2 to 3.32) provide key reasons for the forecast level of annual revenue under or overspend within Directorates and of progress in savings delivery.

Children & Young People's Directorate (+£1,656k forecast overspend)

- 3.2 The May revenue full year forecast for Children's and Young People's Services is £1.656m over budget. The service continues to face a range of pressures which are considered below. Further actions to mitigate the budget pressures are being developed by the service.

- 3.3 The Looked After Children (LAC) placement budget in 2017/18 will fund the cost of approximately 480 children in care. The continued increase in LAC above this threshold can be partially mitigated by the over achievement to date of recruitment to permanent posts with a consequent cost saving against the original staff assumptions in the budget with regard to the rate of transition from agency to permanent workers. This translates to additional funding for up to 20 children in care in 2017/18 giving a revised budget of 500 places.
- 3.4 The current number of Looked After Children (LAC) as at the end of May is 509. This is a sharp increase of 4.5% compared with the actual number as at the end of the 2016/17 financial year - 487 and has resulted in a cost pressure of £450k. Any further increase in numbers above the latest estimate for the year or a transfer of existing placements to more expensive provision will result in further cost pressure on the social care budgets.
- 3.5 Expenditure on the Leaving Care budget also continues to rise above budgeted forecasts (+£286k) with generally more placements at higher cost. The number of care leavers supported has increased steadily from 199 as at February 2015 to 218 at the end of May 2017. A new Leaving Care policy is being developed, which will aim to: standardise payments and to promote a more efficient and effective monitoring process, ensuring that provision is appropriate to client needs.
- 3.6 A Placements Review Group has been established to confirm the appropriateness of placements and to review existing high cost packages of care to ensure both their quality and efficacy. The scope of the review will include both LAC placements and Leaving Care arrangements and SEND complex needs. The group will provide assurance to the CYPS Business Savings and Delivery Operational Group regarding the approved investment and associated savings linked to the placement budget which was set out in the MTFS update to Council in December 2016. To date, the individual projects are on target to deliver their stated outcomes, however the overall savings against budget will be compromised by the continued growth in LAC numbers due to a number of factors outside of the service's control.
- 3.7 A joint "Fusion Centre" bid for Government funding to meet the support needs of Operation Stovewood, an active National Crime Agency (NCA) operation which is incomparable with any other recent or historic investigation, has been made and notification of the result is awaited by the end of the summer. Should the funding not be received, this may result in a further cost pressure in the current financial year – the reported outturn position as at May – an overspend of £365k reflects this but if the grant bid is successful this pressure will reduce.
- 3.8 As part of the 2017/18 Revenue Budget the Council approved a saving of £800k for delivery against the directorate's Business Support function. A Business and Savings Delivery Group has been established to provide assurance in respect of the delivery of savings and the management of the associated financial risks and issues. To date, the Group has identified annual savings of £445k across the

directorate to offset the Business Support Review savings target – the balance of £355k remains a cost pressure within social care at this time.

- 3.9 Other Services within CYPS including the Special Educational Needs and Disabilities (SEND) within Education and Skills and School effectiveness are currently forecast to spend in line with budgets.

Dedicated Schools Grant

- 3.10 The Directorate is currently forecasting an overspend on its Dedicated Schools Grant (DSG) High Needs Block of £4.880m. The other elements of DSG are currently forecast to spend in line with budgets. At the end of 2016/17 the outturn position showed an overall deficit of £5.213k on the non-delegated DSG, comprised as follows:

- Early Years Block: +£0.217m Overspend
- Schools Block: -£0.640m Underspend
- High Needs Block: +£5.636m Overspend

- 3.11 The service has developed a Recovery Strategy that will transfer £3m of funding from the Schools Block DSG Allocation in 2017/18 to the High Needs Block to part fund the 2016/17 deficit. This transfer will be made in 2017/18 and will reduce the forecast deficit reported above to £2.636m in 2017/18. In addition the recovery plan aims to mitigate the in-year pressure of £4.880m and reduce it to £3.971m through a series of measures including: a revised Special School funding model; a review of high cost out of authority education provision with a view to reducing cost and moving children back into Rotherham provision where possible; and a review of inclusion services provided by the Council. The cumulative DSG deficit including in-year mitigating actions, is forecast to be £6.607m. The recovery strategy is for this to be reduced down to £1.796m by April 2019.

Adult Services (+£5.366m forecast overspend) & Housing (-£8k forecast underspend)

- 3.12 Adult Care Services are currently forecasting an overall overspend of £5.366m in 2017/18. This includes a current anticipated shortfall of £4.1m in delivering all of the 2017/18 budget savings in the current financial year. Currently within Adult Care there are pressures relating to the assessment capacity and this has been addressed in the interim by introducing a more flat structure into the teams whilst a realignment of the current pathways takes place. This is scheduled for late September/October 2017 and will include strengthening the front door to ensure that demand management is robust, to divert, signpost and provide a customer focussed service in place.
- 3.13 The £6.2m allocation for Adult Social Care from the Chancellor's Spring Statement needs to address pressures across the social care system with Health partners. This will relate to, amongst other issues, mitigating further challenges in the system, particularly around hospital admission and discharge.

- 3.14 In any change to an individual package of support, in law there needs to be a reassessment of need and therefore a systems change will take time if sustainable change is to take place and therefore a planned approach will be required.
- 3.15 The current outturn forecast takes into account the anticipated impact on adult social care costs of the £6.2m funding and of the £1.1m Improved Better Care Fund, announced as part of the Local Government Finance Settlement. Final arrangements for use of the funding and therefore how the funding impacts on adult social care, are being negotiated with the CCG. The outcome of these negotiations will be factored into future months financial monitoring reports.
- 3.16 In addition to the above forecast overspends, there are further delays on achieving budget savings in respect of Care Enabling within Extra Care Housing (£0.4m) and the review of Rothercare and Assistive Technology provision (£0.3m).
- 3.17 Neighbourhood services' (Housing) latest forecast is an underspend of £8k mainly due to current staff vacancies within Neighbourhood Partnerships pending final recruitment to the recently agreed new Neighbourhood Working Model.

Adult Care & Housing – Recovery Strategy Update

- 3.18 The demand for residential placements is reducing however budget pressures remain due to the increasing cost of care packages. There are also underlying budget pressures from unachieved budget savings carried forward from previous years, for example, Continuing Health Care funding and a reduction in the level of client contributions to services after financial assessment.
- 3.19 One of the main budget savings measures identified is 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. Budget meetings are held with senior managers to review in detail the budget forecasts, monitor demographic pressures, to identify further savings opportunities and to mitigate pressures. Progress continues on the delivery of the Adult Services Development Programme to improve the outcomes for service users and additional reports on a range of options for future service delivery, including further consultation with service users and carers will shortly be considered by Cabinet.
- 3.20 Other management actions include the continuation of bi-weekly meetings of a Practice Challenge Group (PCG) to review and challenge all care assessments prior to discussion with users and carers.
- 3.21 Further investment, as approved by Council in December, has been made in a brokerage team, additional social worker capacity and

additional resources to review Direct Payments and Managed Accounts. These are expected to lead to further reductions in expenditure during the current financial year.

Public Health (forecast balanced outturn)

- 3.22 The forecast outturn is to spend to budget at this stage including a transfer from the Public Health Reserve to balance the budget. This forecast outturn takes into account the 2017/18 reduction in Government grant funding of £423k, which has largely been mitigated through the use of the balance on the Public Health grant reserve.

Regeneration and Environment Services (balanced budget)

- 3.23 The Regeneration and Environment Directorate Management Team have reviewed the forecast outturn position following the May monitoring cycle and a pressure of £0.410m has been identified for the Directorate. The Directorate has agreed savings totalling £4.89m in 2017/18 some of which are predicated on property savings arising from service reviews within other Council services. Other reviews have identified potential savings (e.g. the review of Corporate Transport, including Home to School Transport) but the current view is that these will take longer to deliver than previous assumptions. In order to achieve a balanced position, therefore, the Directorate Management Team will need to find additional savings from other areas in R&E to offset the savings that will take longer to deliver. As in 2016/17, this will be achieved through a robust budgetary monitoring challenge process and ongoing tight day to day budgetary control. Careful financial management will be achieved through the management of vacant posts and through operating strict controls on non-essential spend.
- 3.24 There are a number of overspends and underspends across the Directorate. The main forecast overspends within the Directorate are in summary: Street Scene Services (£227k), Facilities Management (£142k), and Facilities Services (£138k). These forecast overspends are partly mitigated by forecast underspends in other areas – in particular in Safer Neighbourhoods (-£173k).
- 3.25 The current Directorate forecast position excludes any pressure which may be incurred on the Winter Maintenance budget. This is weather dependent and is flagged as a risk at this stage.

Finance & Customer Services (-£45k forecast underspend)

- 3.26 Overall, the Directorate is forecasting an underspend of £45k for the year as a whole. Staff cost pressures are forecast in Legal and Procurement Services and there are pressures relating to the delivery of contract savings Customer, Information and Digital Services (CIDS). These pressures are, however, more than offset by staff cost savings

within Revenues and Benefits and the resulting reduction in the cost of collection of Business Rates and Council Tax.

Assistant Chief Executive (-£13k forecast underspend)

- 3.27 An underspend of £13k is forecast for the year by the Assistant Chief Executive's Directorate. Although the HR and Payroll Service has lost income from schools and academies and demand/income from disclosure and barring checks has reduced, these pressures are more than offset by staff cost savings across the wider Directorate due to vacancy control and the reduced cost of Members' allowances.

Corporate & Central Services – balanced budget

- 3.28 The Corporate and Central services Budget which covers capital financing costs, levies and central costs is currently forecast to achieve a balanced budget for 2017/18. This, however is on the assumption that the staffing savings of £1.1m for 2017/18 set against staff terms and conditions will be achieved from Directorate staffing budgets.
- 3.29 The Council's flexible use of capital receipts policy for 2017/18 anticipates that includes a requirement to fund the first £2m of any staff severance costs will be financed from in-year capital receipts. The actual level of capital receipts for 2016/17 was £2.3m and it is expected that at least £2m will be generated in 2017/18. The use of any capital receipts above the level of £2.0m will be determined within the Council's overall financial strategies.

Capital Programme and Treasury Management

- 3.30 The March 2017/18 Budget report included the Council's Capital Programme – capital budgets and spending plans are currently being updated to reflect under/over spends in 2016/17 for continuing projects. The Capital Programme position for the first quarter of 2017/18 will be reported as part of the July monitoring cycle.
- 3.31 Treasury Management Strategy, which is integral to the management of the Capital Programme and to the overall budget strategy, has associated Prudential Indicators (PIs), which, the Prudential Code (the statutory framework within which the treasury function has to operate) requires the Council to approve and monitor and it is intended that the position for the first quarter of 2017/18 will be reported with the first capital monitoring.

Housing Revenue Account (HRA) – (Forecast -£0.105m underspend)

- 3.32 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

HRA forecast outturn for the current financial year is a transfer to reserves of £0.105m – compared to a break even budget. The surplus is mainly due to staff vacancies with the Supervision and Management section of the HRA.

4. Options considered and recommended proposal

- 4.1 With regard to the current forecast revenue overspend of £6.9m:
- Management actions are being identified with the clear aim of bringing expenditure into line with budgets and the impact of these actions will be included in future financial monitoring reports to Cabinet.
 - In addition, £5.3m of Directorate savings targets are currently identified as at risk of delivery in 2017/18 and for which Directorate Management Teams are tasked with finding alternative and additional savings from other areas in order to achieve a balanced position.
- 4.2 In setting the 2017/18 Revenue Budget the use of £5.3m reserves was approved providing time for further action to be taken to deliver the substantial further savings required over the two financial years 2018/19 to 2019/20. This approach was based on the Council currently having a balance of reserves which could mitigate overall budget risk in the short term and to support a sustainable financial plan in the medium term. It is inevitable that to any extent that planned savings are not delivered and a balanced budget cannot be maintained for 2017/18, there will be an impact on the Council's reserves.
- 4.3 Within the current financial climate, effective and carefully planned use of reserves is ever more critical to the Council's ability to maintain a robust balanced budget and it is level and is not called upon for other purposes save in exceptional circumstances with the agreement of the Leader of the Council, Chief Executive and the Strategic Director of Finance & Customer Services and approved by the appropriate body of the Council in accordance with the Constitution.

5. Consultation

- 5.1 The Council consulted extensively on budget proposals for 2017/18. Details of consultation are set out within the Budget and Council Tax 2017/18 report approved by Council on 8th March 2017.

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.

- 6.2 Financial Monitoring reports are taken to Cabinet and Overview and Scrutiny meetings during the year. The next Financial Monitoring Report considered by Cabinet in September.

7. Financial and Procurement Implications

- 7.1 There is currently a projected overspend of £6.9m as set out within section 3 of this report. This includes a current shortfall in delivery of £5.3m of the total amount of budget savings agreed for 2017/18.
- 7.2 It is inevitable that to any extent that planned savings are not delivered and expenditure exceeds budgets in year, there would be an impact on the Council's reserves as unplanned spending impacts on reserves levels. Control over spending is therefore critical to a robust Medium Term Financial Strategy. All areas at risk of shortfall in savings or subject to budget pressures are subject to review to identify alternative savings.
- 7.3 Failure to achieve planned savings and to contain spending within the agreed budget in the current financial year will also have implications for subsequent financial years 2018/19 and 2019/20 for which the current MTFS identifies a further £42m as being required to balance budgets.

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 Adult' Social care.

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 upon 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 2016/17 accounts is not included in this report.
- 13.3 Potential pressures on the winter maintenance budget arising from adverse weather are not reflected in this report.
- 13.4 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.
- 13.5 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.

14. Accountable Officer(s)

Pete Hudson – Chief Finance Manager
Graham Saxton – Assistant Director-Financial Services

Approvals Obtained from:-

Strategic Director of Finance and Customer Services:- Judith Badger

Assistant Director of Legal Services:- Dermot Pearson

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