POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 27 Brighton & Hove City Council

Subject:		**Targeted Budget Management (TBM) 2019/20: Month 2**	
Date of Meeting:		**18 July 2019**	
Report of:		**Executive Director of Finance & Resources**	
Contact Officer:	**Name:**	**Nigel Manvell**	**Tel: 29-3104**
	Email:	**Nigel.manvell@brighton-hove.gov.uk**	
Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT:

1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out an early indication of forecast risks as at Month 2 on the council's revenue and capital budgets for the financial year 2019/20.

1.2 As set out in the General Fund Revenue Budget 2019/20 report to Budget Council, £11.567m was provided for in the budget for reinvestment in identified service pressures across social care and £3.194m for pressures in other services. These sums are expected to meet identified demand-led, cost and income pressures in 2019/20. However, the council has set aside risk provisions of £1.065m to mitigate potential demand risks and/or any difficulties in delivering savings targets. This risk provision is held as a one-off "financial risk safety net" as part of general reserves.

1.3 The forecast risk for 2019/20 at this early stage is a £3.427m overspend on the General Fund revenue budget. This includes a forecast overspend of £0.099m on the council's share of the NHS managed Section 75 services. As noted above, the council set aside a £1.065m one-off financial risk safety net to mitigate identified risks if absolutely necessary. Taking this into consideration, the council's financial position is therefore in a manageable position at this point in the year where the accuracy of projections is inevitably more variable and where forecasts of potential underspending areas will be more prudent or unknown at this stage.

1.4 The report also indicates that a significant element of the substantial savings package in 2019/20 of £12.236m is expected to be on track with £11.884m either achieved or anticipated to be achieved. Savings at risk (£0.352m) are included in the overall service forecasts.

2 RECOMMENDATIONS:

2.1 That the Committee note the forecast risk position for the General Fund, which indicates a budget pressure of £3.427m. This includes an overspend of £0.099m on the council's share of the NHS managed Section 75 services.

2.2 That the Committee note that the one-off financial risk safety net of £1.065m is available to mitigate the forecast risk if the risks cannot be completely eliminated by year-end.

2.3 That the Committee note the forecast for the Housing Revenue Account (HRA), which is currently an underspend of £0.320m.

2.4 That the Committee note the forecast risk position for the Dedicated Schools Grant which is an overspend of £0.102m.

2.5 That the Committee note the forecast outturn position on the capital programme and approve the variations and slippage in Appendix 5 and the new schemes as set out in Appendix 6.

2.6 That the Committee agree the proposed funding of Schools and Non-Schools Term Time Only back pay as set out in paragraphs 6.3 to 6.5.

3 RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Targeted Budget Management (TBM) Reporting Framework

3.1 The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Policy, Resources & Growth Committee. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending through effective financial recovery planning together with more regular monitoring of high risk demand-led areas as detailed below.

3.2 The TBM report is normally split into the following sections:

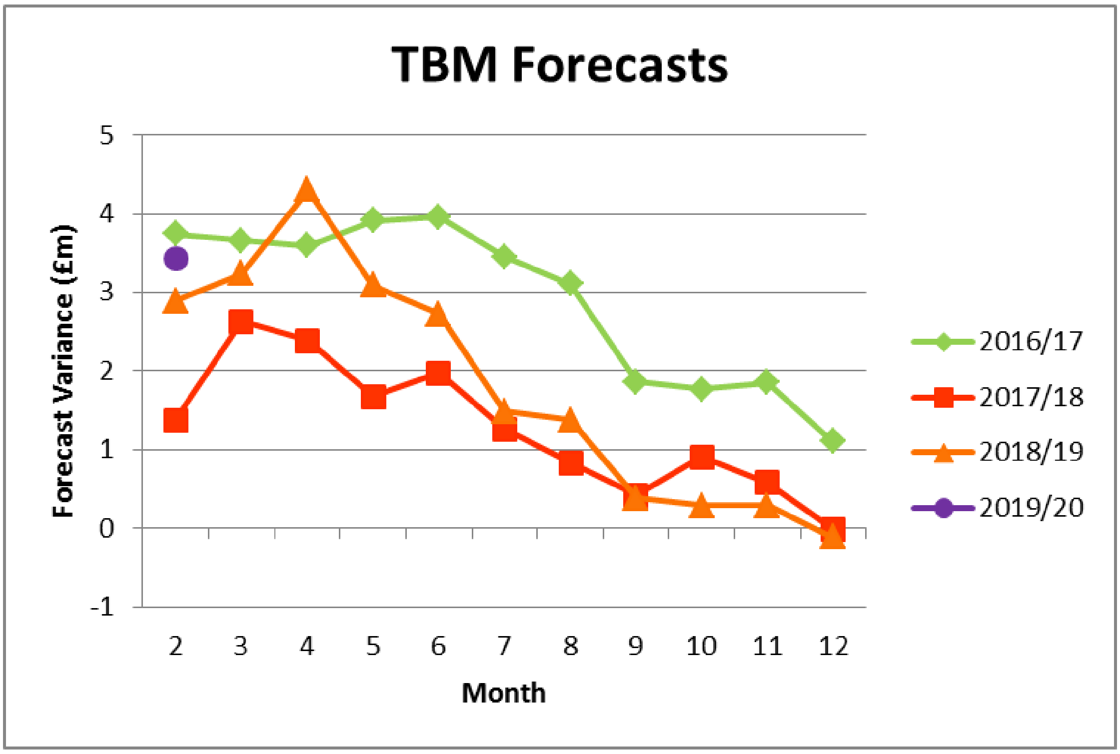
i) General Fund Revenue Budget Performance
ii) Housing Revenue Account (HRA) Performance
iii) Dedicated Schools Grant (DSG) Performance
iv) NHS Controlled S75 Partnership Performance
v) Capital Investment Programme Performance
vi) Capital Programme Changes
vii) Implications for the Medium Term Financial Strategy (MTFS)
viii) Comments of the Director of Finance & Resources (statutory S151 officer)

General Fund Revenue Budget Performance (Appendix 3)

3.3 The table below shows the provisional outturn for Council controlled revenue budgets within the General Fund. These are budgets under the direct control and management of the Executive Leadership Team. More detailed explanation of the variances can be found in Appendix 3.

Forecast Outturn 2018/19 £'000	Directorate	2019/20 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(801)	Families, Children & Learning	89,347	89,754	407	0.5%
2,754	Health & Adult Social Care	58,653	61,321	2,668	4.5%
(1,385)	Economy, Environment & Culture	37,293	37,293	0	0.0%
(370)	Neighbourhood, Communities & Housing	15,449	15,449	0	0.0%
(484)	Finance & Resources	19,982	19,966	(16)	-0.1%
(67)	Strategy, Governance & Law	4,992	5,368	376	7.5%
(353)	Sub Total	225,716	229,151	3,435	1.5%
242	Corporately-held Budgets	(10,780)	(10,788)	(8)	-0.1%
(111)	Total General Fund	214,936	218,363	3,427	1.6%

3.4 The General Fund includes general council services, corporate budgets and central support services. Corporate Budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. Note that General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Note also that although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools). The chart below shows the monthly forecast variances for 2019/20 and the previous three years for comparative purposes.

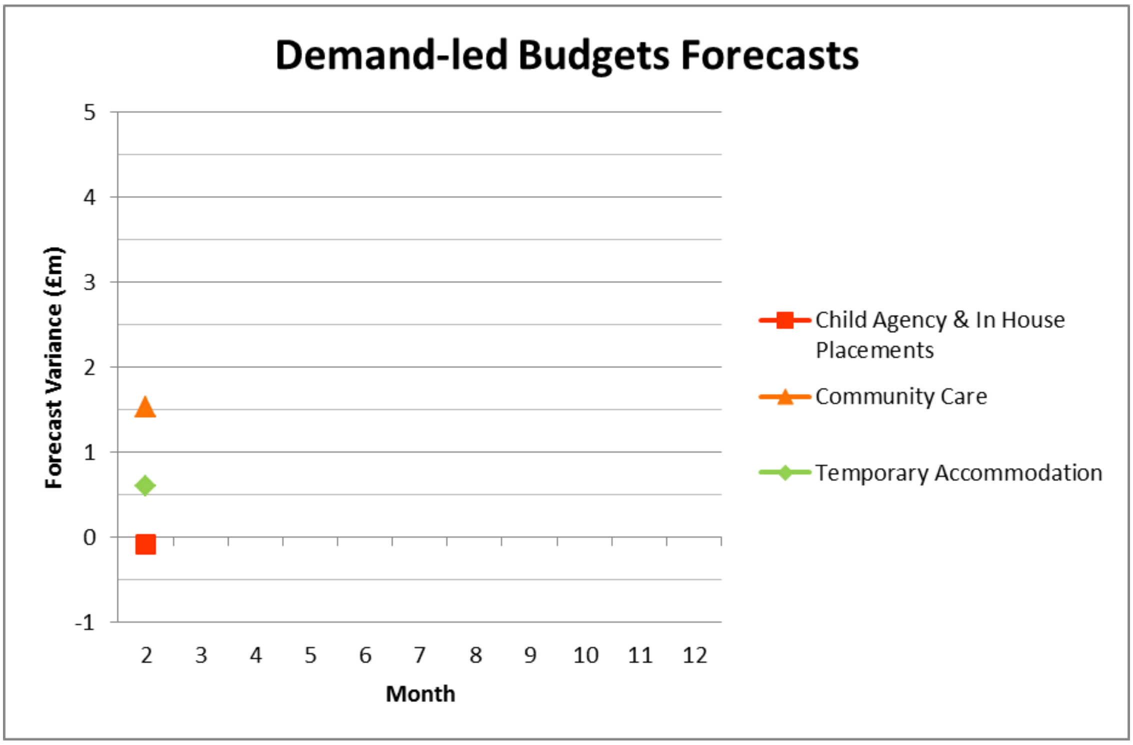


Demand-led Budgets

3.5 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council's overall financial position. These are budgets of corporate significance where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council's budget strategy. These can include income related budgets. These therefore undergo more frequent and detailed analysis.

Provisional Outturn 2018/19 £'000	Demand-led Budget	2019/20 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(406)	Child Agency & In-House Placements	22,117	22,030	(87)	-0.4%
3,316	Community Care	64,863	66,386	1,523	2.3%
592	Temporary Accommodation	2,606	3,206	600	23.0%
3,502	Total Demand-led Budget	89,586	91,622	2,036	2.3%

The chart below shows the monthly forecast variances on the demand-led budgets for 2019/20.



TBM Focus Areas

The main pressures identified at Month 2 are across Families, Children & Learning and Health & Adult Social Care while other pressures are also being contained as summarised below:

3.6 **Families, Children & Learning:** The current projected position identifies potentially significant cost pressures: £0.491m on Services for Children with Disabilities; £0.254m on Services for Adults with Learning Disabilities; £0.332m on Home to School Transport and £0.140m on Early Years Services. However, there are services with forecast underspends such as Children in Care (£0.256m) and Preventive s17 payments (£0.152m) together with other variances (£0.099m); this results in a forecast of £0.710m overspend as at Month 2. After taking into account financial recovery measures of £0.303m the net position currently shows a projected overspend of £0.407m.

3.7 **Adults Services:** The service is facing significant challenges in 2019/20 in mitigating the risks arising from increasing demand from client needs, supporting more people to be discharged from hospital when they are ready and maintaining a resilient local provider market. This is alongside delivering a significant budget savings programme and developing collaboration plans through the Better Care Fund.

- Service pressure funding of over £9.000m, including Better Care and Winter Pressure funding, has been applied in 2019/20 and used to fund budget pressures resulting from the increasing demands and complexity of need across the city. However, £1.563m was needed to offset the reduction in one-off iBCF funding, £0.383m to cover a reduction of CCG funding contributions and £0.500m for the reduction in the Public Health grant. Over the last two years there has been an overall £3.750m reduction in CCG funding due to pressures on health budgets, which has primarily been borne by the HASC budget without matching cost reductions, which caused overspending in 2018/19. Although some service pressure funding has been provided within the council's budget, this has not matched the reductions in full. The CCG continues to fund services in other Directorates.

- Work is ongoing to deliver the total approved budget savings of £4.354m and mitigate an unfunded identified budget pressure of £1.702m in 2019/20.

- HASC is currently forecasting an overspend of £2.668m at Month 2 after the implementation of a number of initiatives to improve the financial stability of the directorate, which have helped to contain the forecast risk. The recovery measures focus on attempting to manage demands on and costs of community care placements across Assessment Services and making the most efficient use of available funds. The current forecast overspend is a result of:
    - Residential & Nursing home placements for Older People relating to pressure from hospital discharge £0.946m;
    - Further CCG funding reductions £0.800m;
    - Physical Support shortfall in Section 117 funding of £0.482m;
    - Unachieved savings from the Sustainable Social Care Programme of £0.440m.

- There is focus nationally on improving rates of hospital discharge in preparation for winter that leads to increasing financial pressure. This pressure is expected to increase over the winter months. There are also continued potential forecast risks concerning increased complexity of need and pressures on the in-house older people resource centres. Service pressure funding and improved Better Care funding have partly mitigated the risk for this financial year.

The funding of all care packages is scrutinised for Value for Money, ensuring that eligible needs are met in the most cost-effective manner which will not always meet people's aspirations. Established safeguards are in place to provide assurance within this process.

3.8 **Housing Services and Temporary Accommodation:** The outturn position for 2018/19 was an overspend of £1.030m. This was made up of £0.592m on Temporary Accommodation, £0.388m on the Seaside Homes contract and £0.050m across the service and was met from the release of Flexible Homelessness Support Grant.

The Temporary Accommodation 2019/20 forecast overspend of £0.600m is driven by higher than budgeted volumes and costs of temporary accommodation due to the continuing local pressures and bedding in the statutory requirements of the Housing Reduction Act. The number of households in temporary accommodation was reduced by over 200 units by the end of 2019/20 but the forecast is that volumes and costs will not decrease to the levels expected when the budget was set.

The Seaside Homes contract forecast overspend of £0.250m (after service pressure funding of £0.150m) is due to lower income collection following the impact of Universal Credit and void losses due to higher churn as households are moved on from temporary accommodation. The service is focusing on how to improve income collection which may become more difficult as Universal Credit is rolled out (the benefit payment for rent is not always paid directly to the landlord).

The £1.300m trailblazer project delivered some reductions in accommodation volumes in 2018/19. This has been extended into 2019/20 and, combined with the funding the council has received from the government's Private Rented Sector Access Programme, should deliver more reductions in 2019/20 and beyond.

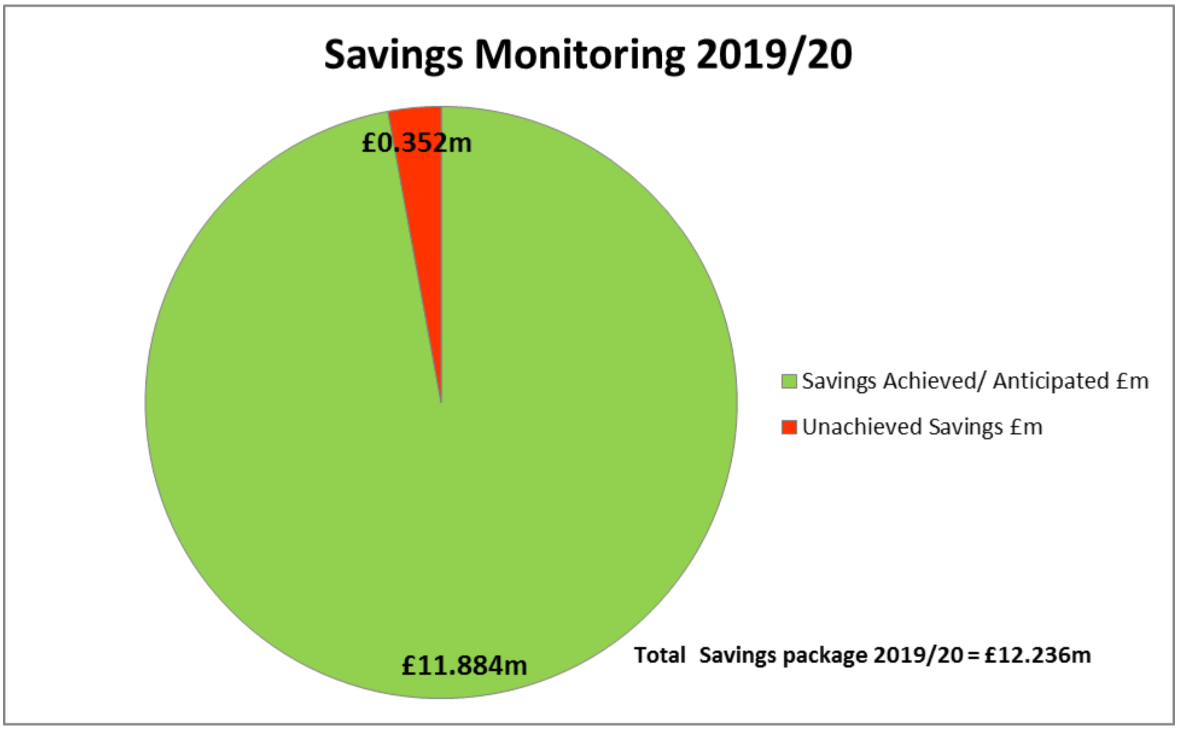
The aim is to both deliver a further reduction in the numbers of households in temporary accommodation and shift the accommodation provided away from higher cost units (such as spot purchase or emergency accommodation) by the end of 2019/20.

3.9 **Environment, Economy & Culture:** The directorate is experiencing a number of pressures, particularly in the CityClean service concerning increasing employee costs to meet service requirements, fleet related costs and income pressures relating to commercial activity. The directorate is developing a number of financial recovery measures to address the net overspend position. These include a comprehensive modernisation programme within the CityClean service and reviewing all significant income streams to develop robust forecasts.

Monitoring Savings

3.10 The savings package approved by full Council to support the revenue budget position in 2019/20 was £12.236m following directly on from a £12.678m savings package in 2018/19. This is very significant and follows 7 years of substantial packages totalling over £130m that have been necessary to enable cost and demand increases to be funded alongside managing reductions in central government grant funding.

3.11 Appendix 3 provides a summary of savings in each directorate and indicates in total what is anticipated/achieved or is at risk. Appendix 4 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the position as at Month 2 which is an early indication. This shows that a substantial element is on track with £0.352m (3%) currently at risk. Mitigation of these risks is included in the development of services' financial recovery actions.



Housing Revenue Account Performance (Appendix 3)

3.12 The Housing Revenue Account is a separate ring-fenced account within the General Fund that covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents and housing benefits. The forecast outturn is currently an underspend of £0.320m and more details are provided in Appendix 3.

Dedicated Schools Grant Performance (Appendix 3)

3.13 The Dedicated Schools Grant (DSG) is a ring-fenced grant within the General Fund which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including Early Years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget

(ISB) which is divided into a budget share for each maintained school. The forecast outturn is an overspend of £0.102m and more details are provided in Appendix 3. Under the Schools Finance Regulations any underspend or overspend must be carried forward to support the schools budget in future years.

NHS Managed S75 Partnership Performance (Appendix 3)

3.14 The NHS Trust-managed Section 75 Services represent those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Foundation Trust (SPFT) and include health and social care services for Adult Mental Health and Memory and Cognitive Support Services.

3.15 This partnership is subject to separate annual risk-sharing arrangements and the monitoring of financial performance is the responsibility of the respective host NHS Trust provider. Risk-sharing arrangements result in financial implications for the council where a partnership is underspent or overspent at year-end and hence the performance of the partnership is included within the forecast outturn for the Health & Adult Social Care directorate. An overspend of £0.716m is currently forecast and more details are provided in Appendix 3.

Capital Programme Performance and Changes

3.16 The table below provides a summary of capital programme performance by Directorate and shows that there is a forecast underspend of £0.167m at this early stage. More details are provided in Appendix 5.

2018/19 Outturn Variance £'000	Capital Budgets	2019/20 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
0	Families, Children & Learning	37,574	37,574	0	0.0%
0	Health & Adult Social Care	338	338	0	0.0%
0	Economy, Environment & Culture	60,622	60,622	0	0.0%
(190)	Neighbourhood, Comms & Housing	5,996	5,996	0	0.0%
(1,088)	Housing Revenue Account	48,992	48,825	(167)	-0.3%
0	Finance & Resources	335	335	0	0.0%
0	Strategy, Governance & Law	2,249	2,249	0	0.0%
0	Corporate Budgets	0	0	0	0.0%
(1,278)	**Total Capital**	**156,106**	**155,939**	**(167)**	**-0.1%**

(Note: Summary may include minor rounding differences to Appendix 5)

3.17 Appendix 5 shows the changes to the capital budget and Appendix 6 provides details of new schemes for 2019/20 to be added to the capital programme which are included in the budget figures above. Policy, Resources & Growth Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval at Budget Council.

Summary of Capital Budget Movement	2019/20 Budget £'000
Budget approved at Budget Council plus slippage and reprofiles approved in the Outturn report	158,973
Reported at other Policy, Resources & Growth Committees for inclusion into 2019/20 year	3,565
New schemes to be approved in this report (see Appendix 5)	646
Variations to Budget (to be approved)	1,582
Reprofiling of Budget (to be approved)	(8,660)
Slippage (to be approved)	0
Total Capital	**156,106**

3.18 Appendix 5 also details any slippage into next year. However, as normal, project managers have forecast that none of the capital budget will slip into the next financial year at this early stage.

Implications for the Medium Term Financial Strategy (MTFS)

3.19 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy, Resources & Growth Committee and Full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.

Capital Receipts Performance

3.20 Capital receipts are used to support the capital programme. Any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Modernisation Fund, Asset Management Fund and the Information, Technology and Digital Investment Fund. The planned profile of capital receipts for 2019/20, as at Month 2, is £17.180m. To date there have been receipts of £0.052m in relation to some minor lease extensions and loan repayments. The capital receipts performance will be monitored over the coming months against capital commitments.

3.21 The forecast for the 'right to buy sales' in 2019/20 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 55 homes will be sold with a maximum useable receipt of £0.510m to fund the corporate capital programme and net retained receipt of £6.600m available to re-invest in replacement homes. To date 5 homes have been sold in 2019/20.

Collection Fund Performance

3.22 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police and Crime Commissioner and East Sussex Fire Authority, whereas any forecast deficit or surplus relating to business rates is shared between the council, East Sussex Fire Authority and the government.

3.23 The council tax collection fund is forecast to be in deficit by £0.590m at year end. This is mainly from reductions to previous year’s council tax income due to backdated entitlement to exemptions, particularly severely mentally impaired exemptions which can be backdated over a number of years. The council's share of the overall forecast council tax deficit is £0.501m.

3.24 There is no variance currently forecast on the business rates collection fund.

3.25 The council’s share of the combined collection funds is a deficit of (£0.501m) and is included in the budget forecast as a one-off pressure for 2020/21.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The provisional outturn position on the General Fund is an overspend of £3.427m. This includes a forecast overspend of £0.099m on the council’s share of the NHS managed Section 75 services. There are one-off financial risk provisions of £1.065m available to partially mitigate the position. Any overspend at the year-end would need to be funded from general reserves which would then need to be replenished to ensure that the working balance did not remain below the recommended level of £9.000m. Any underspend would release one off resources that can be used to aid budget planning for 2020/21.

5 COMMUNITY ENGAGEMENT & CONSULTATION

5.1 No specific consultation has been undertaken in relation to this report.

6 CONCLUSION AND COMMENTS OF THE DIRECTOR OF FINANCE & RESOURCES (S151 OFFICER)

6.1 This early forecast indicates a number of underlying demand and cost pressures that need an immediate response to ensure that the position does not escalate. The Executive Leadership Team will therefore focus on identifying and confirming appropriate financial recovery measures including early consideration of potential underspending areas.

6.2 The forecast risk at Month 2 represents 1.6% of the net General Fund (1.1% after taking into account risk provisions) and is therefore expected to be manageable at this stage of the year as there is sufficient time to plan and undertake further financial recovery action if further risks emerge.

Term time only back pay

6.3 A case at the Employment Appeal Tribunal in 2018 (Brazel v The Harpur Trust) confirmed the correct treatment of pro rating annual leave for Term Time Only staff. This has resulted in an amendment to the calculated amount of leave these staff are entitled to. This change means that staff who work term time only are entitled to between 0.67 and 1 week's additional annual leave per year. Potential claims relating to back pay for this amendment are possible and the council is therefore negotiating settlement in this respect. If back pay were to be based on 6 years, as for equal pay claims, the estimated cost would be approximately £3.772m for schools' staff and £0.382m for non-school staff. The ongoing costs of this change are estimated to be £0.660m for schools and £0.070m for non-school staff.

6.4 The ongoing costs for schools will need to be met from the schools' funding block, funded by the Dedicated Schools Grant, which will inevitably have an impact on schools' financial positions. Any back pay liability would similarly fall to be funded by schools, however, this could have a destabilising effect due to the scale of the potential liability. To manage the back pay liability it is proposed to allow schools to spread the cost over 10 years by making available earmarked Waste PFI reserves which will not be required until later years of the PFI contract. It is further proposed to share the burden of back pay costs 50:50 with the council's General Fund to further support schools and the council's commitment to education. This necessarily will have implications for other council services due to government restrictions on taxation increases, the impact of reducing government grant funding since 2009 and severe cost pressures on social care and homelessness services. The costs and impact of this are summarised in the table below:

Term Time Only Cost Element	**Schools £'000**	**General Fund £'000**
Schools back pay annual cost (shared over 10 years)	188.6	188.6
Non-Schools back pay annual cost (over 10 years)	0.0	38.2
Ongoing annual cost of change to leave entitlements	660.0	70.0
Total Annual Cost	**848.6**	**296.8**

6.5 The total back pay costs are estimated at £4.154m and will be temporarily funded by utilising cash balances relating to the earmarked Waste PFI reserve where these resources are not required in the short term in line with the financial model for this PFI contract. Repayments will commence from 2020/21. The ongoing costs that impact in 2019/20 will be reflected in TBM monitoring reports and will be built into next year's budget estimates. For the General Fund, this will add £0.297m to the budget gap[1]. It should be noted that all funding for the back-pay liability will be returnable to the council by any school on ceasing to be maintained by the council.

7 FINANCIAL AND OTHER IMPLICATIONS

Financial Implications:

7.1 The financial implications are covered in the main body of the report. Financial performance is kept under review on a monthly basis by the Executive

[1] The 'Budget Gap' is the difference between the anticipated Local Government Financial Settlement, potential taxation increases and the estimated increase in the cost of services including increased demands on statutory services such as social care.

Leadership Team and the management and treatment of forecast risks is considered by the Audit & Standards Committee as part of its review of strategic risks.

Finance Officer Consulted: Jeff Coates *Date: 21st June 2019*

Legal Implications:

7.2 Decisions taken in relation to the capital and revenue budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts. In relation to recommendation 2.6, the relevant case law is referred to in the report at paragraph 6.3. The Employment Rights Act 1996 Section 23 (1) (as amended) has the effect of capping the backdating of any potential claims for unlawful deduction of wages to two years from presentation of the claim, while under the Equality Act 2010 equal pay claims are limited to a maximum of 6 years.

Lawyer Consulted: Elizabeth Culbert *Date: 24th June 2019*

Equalities Implications:

7.3 There are no direct equalities implications arising from this report.

Sustainability Implications:

7.4 Although there are no direct sustainability implications arising from this report, the council's financial position is an important aspect of its ability to meet council priorities. The achievement of a break-even position or better is therefore important in the context of ensuring that there are no adverse impacts on future financial years arising from performance in 2019/20.

Risk and Opportunity Management Implications:

7.5 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

SUPPORTING DOCUMENTATION

Appendices:

1. Financial Dashboard Summary
2. Revenue Budget RAG Rating
3. Revenue Budget Performance
4. Summary of 2019/20 Savings Progress
5. Capital Programme Performance
6. New Capital Schemes

Documents in Members' Rooms:

None.

Background Documents
None.