

<b>Subject:</b>	<b>Targeted Budget Management (TBM) 2016/17: Month 7</b>		
<b>Date of Meeting:</b>	<b>8 December 2016</b>		
<b>Report of:</b>	<b>Executive Director for Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Nigel Manvell</b>	<b>Tel: 29-3104</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**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 indication of forecast risks as at Month 7 (October) on the council's revenue and capital budgets for the financial year 2016/17.
- 1.2 As set out in the General Fund Revenue Budget 2016/17 report to Budget Council, potential cost pressures of up to £18m were identified of which approximately £12m was provided for in the budget through 'service pressure funding'. The report highlighted that successful 'demand management' strategies would therefore be key to managing down cost pressures across Adult and Children's social care and Homelessness (temporary accommodation) in order to achieve financial balance in 2016/17. In recognition of this challenging position, £3m risk provisions were set aside to provide some mitigation against these risks.
- 1.3 The forecast risk for 2016/17 as at August is £3.450m on the General Fund, compared to £3.745m in May, reflecting the situation outlined above. This includes a pressure of £0.419m on the council's share of the NHS managed Section 75 services. The position continues to be driven by sustained pressures across Adults and Children's social care budgets and Homelessness. These services have developed recovery plans and measures to address pressures as far as practicable and this process will continue alongside recovery actions across the wider council in an attempt to pull the position back into balance over the remainder of the year.
- 1.4 The council has risk provisions of £3.000m available to mitigate the position, however restructure and redundancy costs are higher than anticipated which will be a first call against risk provisions. Utilising risk provisions to mitigate overspending is also to be avoided if at all possible as these resources are highly likely to be required to support future budget rounds as the financial challenges increase.

**2 RECOMMENDATIONS:**

- 2.1 That the Committee note the forecast risk position for the General Fund, which indicates an in-year budget pressure of £3.450m. This includes a pressure of £0.419m on the council's share of the NHS managed Section 75 services.

- 2.2 That the Committee note that total recurrent and one-off risk provisions of £3.000m, less additional restructure and redundancy commitments, are 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 an underspend of £1.466m.
- 2.4 That the Committee note the forecast risk position for the Dedicated Schools Grant which is an underspend of £0.215m.
- 2.5 That the Committee note the forecast outturn position on the capital programme and approve the variations and reprofiles in Appendix 4 and the new schemes as set out in Appendix 5.
- 2.6 That the Committee approves the establishment of a Community Equipment Store reserve of £0.350m (see Adult Social Care section of Appendix 2).

### **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 together with more regular monitoring of high risk demand-led areas as detailed below.
- 3.2 The TBM report is normally split into 8 sections as follows:
  - 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 (statutory S151 officer)

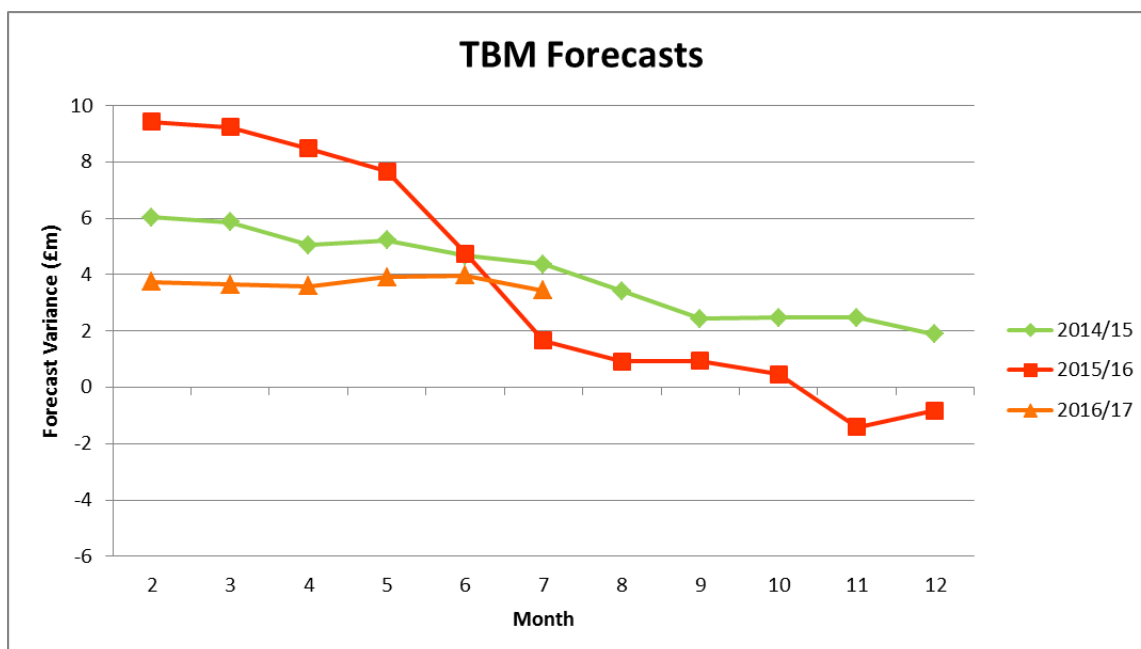
#### **General Fund Revenue Budget Performance (Appendices 1 & 2)**

- 3.3 The table below shows the forecast outturn for Council controlled revenue budgets within the General Fund. These are budgets under the direct control and management of the Executive Leadership Team. A summary of the movement between Months 5 and 7 is shown in Appendix 1 and a more detailed explanation of the variances can be found in Appendix 2.

2016/17 Month 5 Variance £'000	Directorate	2016/17 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
3,803	Families, Children & Learning	81,969	85,512	3,543	4.3%
1,117	Health & Adult Social Care	51,180	52,357	1,177	2.3%
(269)	Economy, Environment & Culture	32,915	32,062	(853)	-2.6%
250	Neighbourhood, Communities & Housing	15,695	16,682	987	6.3%
(317)	Finance & Resources	20,595	20,241	(354)	-1.7%
70	Strategy, Governance & Law	5,566	5,554	(12)	-0.2%
4,654	Sub Total	207,920	212,408	4,488	2.2%
(738)	Corporate Budgets	7,435	6,397	(1,038)	-14.0%
3,916	Total General Fund	215,355	218,805	3,450	1.6%

*Note: Since Month 5 services for adults with learning disabilities have transferred from Health & Adult Social Care (HASC) to Families, Children & Learning (FCL). The Month 5 variances above have been re-stated to reflect this and therefore the Month 5 variance for FCL is £2.785m higher than previously reported to committee and the HASC variance is lower by the same amount.*

- 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).
- 3.5 The chart below shows the monthly forecast variances for 2016/17 and the previous two years for comparative purposes. To ensure a like for like comparison of the underlying position, the data for the previous two years excludes the allocation of risk provisions and the one-off Minimum Revenue Provision adjustment of £2.328m in 2015/16.

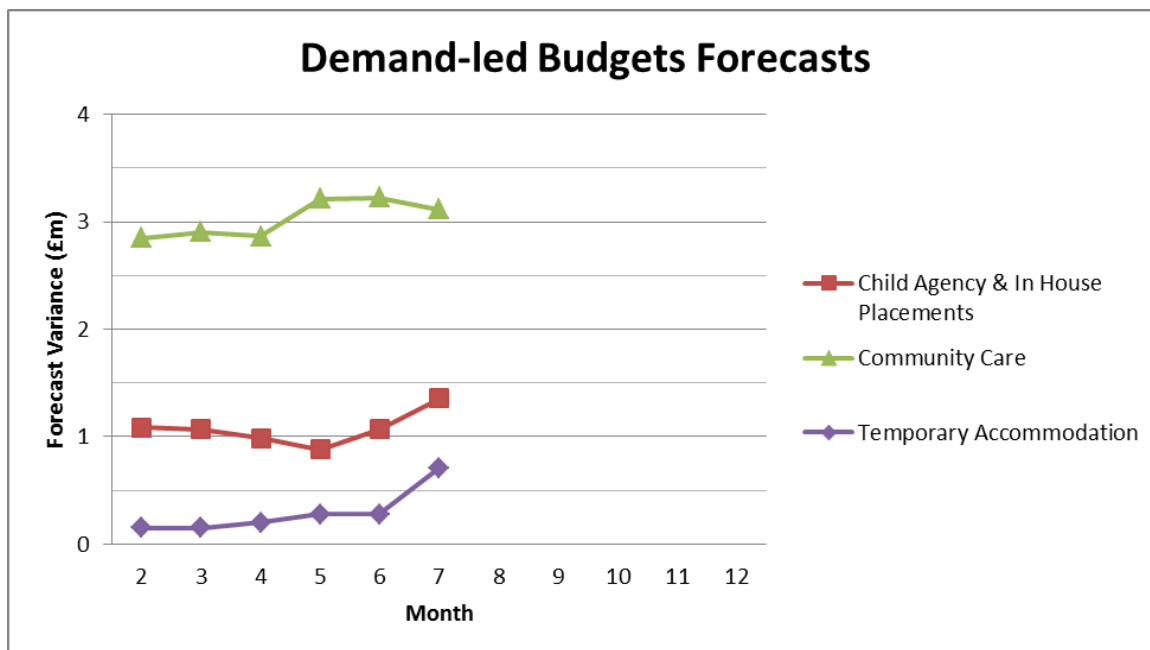


### Demand-led Budgets

- 3.6 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 significant budgets 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 therefore undergo more frequent and detailed analysis.

2016/17 Month 5 Variance £'000	Demand-led Budget	2016/17 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
881	Child Agency & In House Placements	19,556	20,914	1,358	6.9%
3,216	Community Care	48,973	52,089	3,116	6.4%
277	Temporary Accommodation	1,459	2,170	711	48.7%
4,374	Total Demand-led Budget	69,988	75,173	5,185	7.4%

The chart below shows the monthly forecast variances on the demand-led budgets for 2016/17.



### Summary of the position at Month 7

The main pressures reported at Month 7 continue to be across Children’s and Adults Social Care and Homelessness (Temporary Accommodation) as follows:

**3.7 Children’s Services:** The initial forecast budget risk across Families, Children and Learning was £2.534m primarily resulting from increased demand pressures on services for Children in Care and social work cost pressures continuing through from last year. Subsequently the directorate has put together a financial recovery plan to address the financial risks. This recovery plan identified £1.535m of potential cost reductions to improve the forecast position which would give an outturn of £0.999m. There still remain significant financial pressures on services for Children in Care and social work as well as emerging risks in the Home to School Transport budget, Youth Service and Nurseries that will need to be closely monitored. In addition the transfer of services for Adults with Learning Disabilities from the Health & Adult Social Care Directorate has added £2.552m to the overspend.

The current projected position has identified potential cost pressures of £2.552m on services for adults with learning disabilities, £0.232m on social work staffing and £1.463m on placement budgets. Together with risks of £0.242m on Home to school transport, £0.100m on Early Years and other underspending budgets of £1.046m, explaining the forecast risk of £3.543m as at Month 7.

**3.8 Adults Services:** The service is facing significant financial challenges in 2016/17 in mitigating the risks arising from the sustained pressures in 2015/16 and managing in-year demands. This is alongside delivering a significant budget savings programme and developing integration plans through the Better Care Fund.

- The forecast TBM risk at Month 7 of £1.177m after identifying recovery measures which have helped to contain the forecast risk. Recovery measures are focused 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 forecast risk includes the following main elements that are described in more detail in Appendix 1:

- The main area of forecast risk concerns service pressures identified at the beginning of the year (and highlighted in the General Fund Revenue Budget report as noted above) which relate to increased complexity of need, increasing numbers of older people being discharged from hospital requiring social care services for the first time, pressures on the provider services' budget and Deprivation of Liberty Standards (DoLS) cases. At Month 7 there is a significant residual risk of £1.177m relating to these pressures.
- Note that the in-year forecast does not include any one-off funding contributions. In previous years, one-off contributions have been received from the Care Act implementation funds and the Better Care Fund (£3.548m in 2015/16). At this stage it is not anticipated that any additional funds will be made available in 2016/17 due to pressures on the Integrated Community Equipment service but this will kept under review.
- The forecast includes the part year effect of the increase in care home fees. In order to manage the local market and address the significant under-supply of providers in the city who will accept publicly funded residents, fee increases were essential.
- Of the approved budget savings for 2016/17 of £4.352m, all are being forecast as achievable.
- Service pressure funding of over £3m, including the Adult Social Care precept, was applied in 2016/17 and has been used to fund budget pressures resulting from increased demands and complexity, DoLS, the national living wage and fee rates.

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. This forms a key part of the savings implementation plan. Adult Services are also using benchmarking information to support the driving down of unit costs but are faced with increased complexity and demand (demographic) growth which is also a national picture. Through regional and other social care networks the service has been looking at best practice in delivering cost effective services in order to influence future direction - this includes demand management strategies and identifying opportunities through Housing provision.

- 3.9 **Housing Services and Temporary Accommodation:** Although the council is accepting a full housing duty for a similar level of households as previously (around 420 per annum), the actual numbers of households in temporary accommodation is increasing because there are limited opportunities to move these households out of temporary accommodation into other alternative longer term forms of accommodation. This is due to a mixture of shortage of supply, unaffordable rents in the private sector and policy changes within ASC commissioning affecting the allocation of supported beds. Given the high cost housing market and welfare reforms, prevention of homelessness has been challenging but has been successful in preventing demand for temporary accommodation increasing further (i.e. the level of homeless acceptances has been maintained).

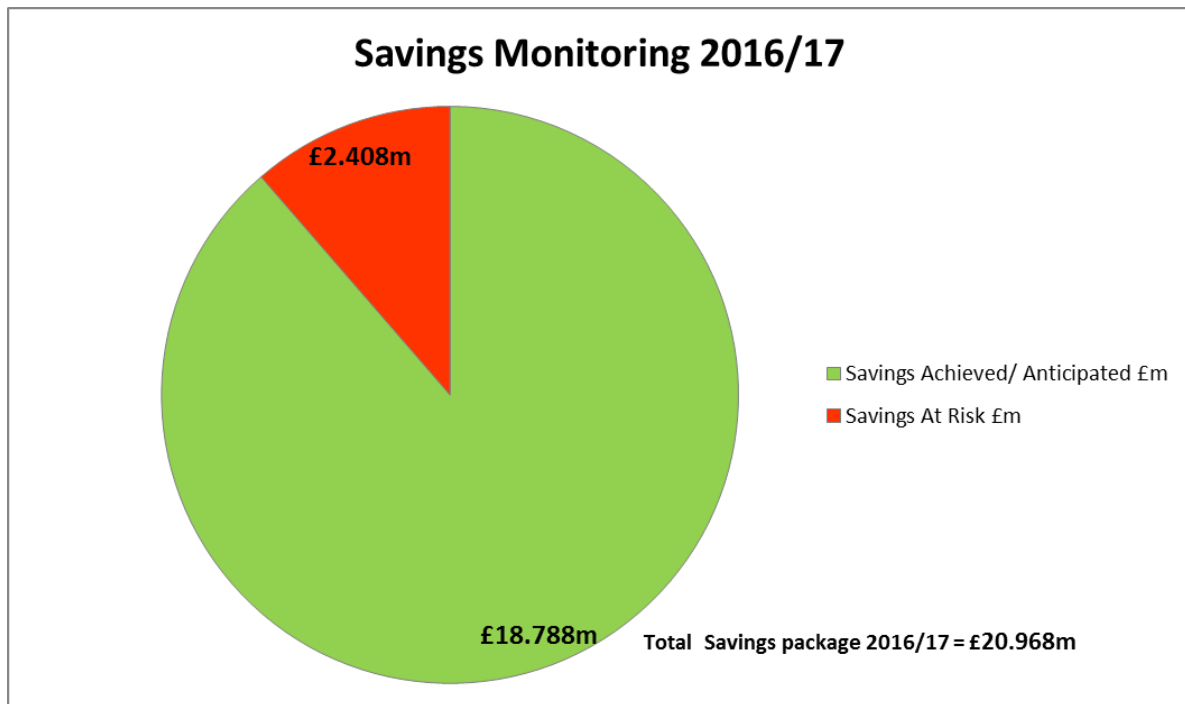
The service is currently completing a large decanting programme of approximately 200 leased units of temporary accommodation with one provider. Two thirds of these properties have been decanted and handed back with the remainder expected by the end of the financial year. In addition, the level of general handbacks is high due to a high cost housing market which is leading landlords to sell. This has a significant impact as:

- reprovision to replace lost units means that additional growth of leased property is at a standstill and so new demand can only be absorbed by spot purchase
- reprovision is at an increased cost as the housing market is now more expensive
- There are costs associated with the handback of a large number of units which include dilapidation and void costs
- Some units of provision were diverted to ASC to assist with an emergency situation

The current projection is an overspend of £0.711m, (of which £0.335m relates to the managed risk identified at budget setting) and takes account of the use of a one-off contingency sum of £0.100m as well as identified recovery measures of £0.416m. These measures include the use of one off specific temporary accommodation reserves, vacancy management, improving moving on from temporary accommodation, using HRA assets awaiting redevelopment as temporary accommodation as well as utilising £0.200m of DCLG funding for early prevention work and financial incentives to landlords and applicants.

### **Monitoring Savings**

- 3.10 The savings package approved by full Council to support the revenue budget position in 2016/17 was £20.968m. This is a very large savings package and follows five years of substantial packages totalling nearly £98m. Achievement of savings programmes and actions in 2016/17 will be closely monitored to ensure satisfactory progress and, so far as possible, to avoid adding to financial pressures in future years through non-achievement.
- 3.11 Appendix 2 includes a summary of savings in each directorate and indicates in total what is anticipated/achieved or is at risk. Appendix 3 summarises the position across all directorates and presents the entire savings programme. The chart below provides a summary of the position as at Month 5. This shows that delivery of the savings programme of £20.968m for 2016/17 is expected to be significantly on track with approximately £2.408m at risk. Mitigation of these risks is included in the development of services' financial recovery actions. The majority of 'at risk' savings are within the Families, Children & Learning directorate as detailed in Appendix 2.



*Note: Savings achieved/anticipated includes an overachievement of savings of £0.136m.*

### **Housing Revenue Account Performance (Appendix 2)**

- 3.12 The Housing Revenue Account is a separate ring-fenced account which covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents. The forecast outturn is an underspend of £1.466m and more details are provided in Appendix 2.

### **Dedicated Schools Grant Performance (Appendix 2)**

- 3.13 The Dedicated Schools Grant (DSG) is a ring-fenced grant 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 underspend of £0.215m and more details are provided in Appendix 2. Under the Schools Finance Regulations any underspend must be carried forward to support the schools budget in future years.

### **NHS Managed S75 Partnership Performance (Appendix 2)**

- 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. The council's forecast contribution to the risk share for 2016/17 is currently £0.419m and more details are provided in Appendix 2.



## 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 overspend of £0.289m at this stage. More details are provided in Appendix 4.

2016/17 Month 5 Variance £'000	Capital Budgets	2016/17 Budget Month 7 £'000	Forecast Outturn Month 7 £'000	Forecast Variance Month 7 £'000	Forecast Variance Month 7 %
0	Families, Children & Learning	17,339	17,339	0	0.0%
0	Health & Adult Social Care	489	489	0	0.0%
0	Economy, Environment & Culture	47,068	47,068	0	0.0%
328	Neighbourhood, Comms & Housing	4,590	4,918	328	7.1%
96	Housing Revenue Account	46,885	46,846	(39)	-0.1%
0	Finance & Resources	3,572	3,572	0	0.0%
0	Strategy, Governance & Law	0	0	0	0.0%
0	Corporate Services	0	0	0	0.0%
424	<b>Total Capital</b>	<b>119,943</b>	<b>120,232</b>	<b>289</b>	<b>0.2%</b>

(Note: Summary may include minor rounding differences)

- 3.17 Appendix 4 shows the changes to the budget and Appendix 5 provides details of new schemes for 2016/17 to be added to the capital programme which are included in the budget figures above. Policy, Resources and 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 TBM5.

Capital Budget Movement Summary	2016/17 Budget £'000
Budget Approved at TBM Month 5	124,977
Reported at other Policy & Resources committees since Month 5	1,828
New schemes to be approved in this report (see Appendix 5)	701
Variations (to be approved - see Appendix 4)	98
Reprofiles (to be approved - see Appendix 4)	(6,912)
Slippage (to be approved - see Appendix 4)	(749)
<b>Total Capital Budget</b>	<b>119,943</b>

- 3.18 Appendix 4 also details any slippage into next year, which project managers have forecast that £0.749m of the capital budget will slip into the next financial year at this 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, Asset Management Fund, Customer First in a Digital Age and the Workstyles VFM projects. The planned profile of capital receipts for 2016/17, as at Month 7, is £12.220m against which there have been receipts of £1.794m in relation to a lease extension at Hartington Road, land at Park Wall Farm, Falmer, 11 Little East Street plus some minor lease extensions at the Marina and the sale of Lions Court with the capital receipt ringfenced for investment into the housing capital programme.
- 3.21 The forecast for the 'right to buy sales' in 2016/17 (after allowable costs, repayment of housing debt and forecast receipt to central government) is that an estimated 50 homes will be sold with a maximum useable receipt of £0.500m to fund the corporate capital programme and net retained receipt of £3.013m available to re-invest in replacement homes. To date 28 homes have been sold in 2016/17.

A total of £1.339m receipts from the housing Local Delivery Vehicle (LDV) has been received during October 2016. This is the final batch of receipts and no further tranches are due for this particular project. The net receipts are ringfenced to support investment in council owned homes.

### 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 surplus by (£0.765m) at year end which incorporates a brought forward surplus of (£0.376m). Other main changes in the forecast during the year are a greater than forecast reduction in Council Tax Reduction awards (£0.300m), increased income from new properties and banding changes (£0.150m), and increased severely mentally impaired exemptions £0.050m. The council's share of the overall forecast council tax surplus is (£0.654m).
- 3.24 The business rates collection fund is forecast to be in deficit by a further £0.504m increasing the total deficit forecast to £3.737m at year-end, which incorporates a brought forward deficit of £1.378m. The increase this month mainly arose from new appeals lodged in the last two months being higher than anticipated and an assessment being reclassified by the VOA on its use resulting in the rateable value

reducing by 54% backdated to the start of 2014 leading to reduced business rates of £0.218m. The main reason for the overall deficit during the year is a greater reduction in the 2016/17 liability being forecast from the impact of appeals and a higher provision being anticipated for losses in collection. Business rates income continues to be difficult to forecast due to the backlog of appeals. The number of appeals outstanding at the end of October totalled 842 (down from 1,094 at 31/3/16) of which 457 were lodged before 01/04/15. The council's share of the overall forecast business rates deficit is £1.831m.

- 3.25 The council's share of the combined net deficit across both collection funds is £1.177m and this will need to be included in the budget forecast for 2017/18.

#### **4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 The provisional outturn position on the General Fund is an overspend of £3.450m. This includes a pressure of £0.419m on the council's share of the NHS managed Section 75 services. Risk provisions of £3.000m are available to substantially mitigate the position if the risk cannot be addressed by year-end. Any overspend above this level 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 £9.000m. Any underspend would release one off resources that can be used to aid budget planning for 2017/18.

#### **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 (S151 OFFICER)**

- 6.1 The General Fund Revenue Budget 2016/17 report to full Council in February, which set out the budget for approval, indicated that cost pressures arising from increasing costs and demands, particularly across social care, were likely to add costs of around £18m. Through a combination of savings programmes (totalling over £20m) and taxbase increases, including the Adult Social Care precept, the council was able to provide £12m funding toward these cost pressures requiring effective demand management strategies to manage the residual risk.
- 6.2 The forecast risk at Month 7 remains manageable in the context of the expected level of risk and given that there is still sufficient time to take further corrective action. However, the underlying pressures on social care are of concern and will have implications for next year's budget. Demand management alone is unlikely to bring the budget into balance this year and therefore mitigating actions across the wider council will be deployed to improve the position. Consideration will also be given to bringing forward savings proposals already identified in the 4-year Integrated Service & Financial Plans where practicable and subject to necessary approvals.
- 6.3 It should also be noted that the one-off cost of facilitating the 2016/17 £21m savings package is higher than anticipated in terms of severance costs for staff exiting the authority following service redesigns and consultation. To date, over 220 staff have been released on redundancy, all of which have been assessed by the Officer Compensation Panel to ensure that all cases met the council's business case criteria for a good value for money decision (i.e. maximum 2-year payback from associated net savings). The Restructure & Redundancy provision has been exceeded by £0.400m and this is expected to increase to approximately £0.600m. This one-off cost will be a first call on the £3.000m risk provision.

## 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 Cross-Party Budget Review Group and the management and treatment of forecast risks is considered by the Audit & Standards Committee.

Finance Officer Consulted: Jeff Coates                      Date: 13/11/16

### Legal Implications:

Decisions taken in relation to the 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.

Lawyer Consulted: Elizabeth Culbert                      Date: 22/11/16

### Equalities Implications:

- 7.2 There are no direct equalities implications arising from this report.

### Sustainability Implications:

- 7.3 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 Corporate Plan and Medium Term Financial Strategy 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 from performance in 2016/17.

### Risk and Opportunity Management Implications:

- 7.4 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. Revenue Budget Movement since Month 5
2. Revenue Budget Performance
3. 2016/17 Savings Progress
4. Capital Programme Performance
5. New Capital Schemes

### **Documents in Members' Rooms:**

None.

### **Background Documents**

None.

