

## FINANCIAL MONITORING REPORT: 2015/16

<b>Cabinet Date</b>	11 <sup>th</sup> November 2015
<b>Finance and Change</b>	Cllr Ray Theodoulou - Deputy Leader and Cabinet Member for Finance & Change
<b>Key Decision</b>	Yes
<b>Background Documents</b>	MTFS to 18 <sup>th</sup> February 2015 County Council Finance Monitoring Reports to 22 <sup>nd</sup> July 2015 and 30 <sup>th</sup> September Cabinet
<b>Main Consultees</b>	Cabinet Members, OSMC, COMT and Budget Managers.
<b>Planned Dates</b>	Not Applicable
<b>Divisional Councillor</b>	County Wide
<b>Officers</b>	Jo Walker, Strategic Finance Director (01452) 328469 <a href="mailto:joanna.walker@gloucestershire.gov.uk">joanna.walker@gloucestershire.gov.uk</a>  Mark Spilsbury, Head of Financial Management, (01452) 328920 <a href="mailto:mark.spilsbury@gloucestershire.gov.uk">mark.spilsbury@gloucestershire.gov.uk</a>
<b>Purpose of Report</b>	To provide an update on the year-end forecast for the 2015/16 Revenue and Capital Budgets.
<b>Recommendations</b>	That the Cabinet: <ol style="list-style-type: none"> <li>1. <i>Notes the forecast revenue year end position as at the end of August 2015 for the 2015/16 financial year of a net £3.9 million over-spend, and mitigating actions being taken.</i></li> <li>2. <i>Notes the forecast capital year end position of a £4.9 million under-spend for 2015/16, and recognises that this is the result of slippage in capital projects and that the total capital programme budget remains unchanged.</i></li> <li>3. <i>Agrees a revenue contribution to capital from the Business Support Services budget of £0.15 million to support the Archives capital project, which is largely funded from the Heritage Lottery Fund.</i></li> <li>4. <i>Agrees £0.3 million of approved capital grant funding be transferred to the Thrupp Primary School project.</i></li> <li>5. <i>Approves a £17 million one-off financial contribution to the residual waste project, funded from revenue reserves to mitigate the cost of delay in the annual revenue budget for the project over 25 years.</i></li> </ol>

	<i>6. Authorises the Director of Communities and Infrastructure to agree and sign the deed of variation restatement of the residual waste contract.</i>
<b>Reasons for recommendations</b>	To note the current in year positions relating to the revenue and capital budgets and to seek approval for changes in relation to each.
<b>Resource Implications</b>	These are detailed within the report.

## Section A: Revenue Outturn 2015/16: Forecast Position

1. The current forecast of the year end revenue position, based on actual expenditure at the end of September 2015 and forecasts made in October 2015, is an over-spend of £3.9 million, 0.9% of the net budget.
2. Details of the forecast year end position, analysed by service area, is provided in the table below and the narrative that follows.

Service Area	2015/16 Budget	Forecast Outturn	Forecast Variance	Variance %	Forecast Variance Previously reported	Change in variance
	£000	£000	£000	%	£000	£000
Adults	149,260	153,550	4,290	2.9%	3,762	528
Public Health	24,934	24,934	0	0.0%	0	0
Children & Families	99,599	102,221	2,622	2.6%	2,805	-183
Communities & Infrastructure	89,070	89,070	0	0.0%	-91	91
Business Support Services	25,212	24,921	-291	-1.2%	-113	-178
Support Services Recharges	-25,212	-25,212	0	0.0%	0	0
<b>Total for Services</b>	<b>362,863</b>	<b>369,484</b>	<b>6,621</b>	<b>1.8%</b>	<b>6,363</b>	<b>258</b>
Technical & Cross Cutting	57,571	54,824	-2,747	-4.8%	-2,570	-177
<b>Total</b>	<b>420,434</b>	<b>424,308</b>	<b>3,874</b>	<b>0.9%</b>	<b>3,793</b>	<b>81</b>

3. The main reasons for the forecast revenue outturn positions, together with the actions being taken to address these positions, are as follows:

### **Adults**

The current forecast outturn position for the Adults budget is an over-spend of £4.3 million, as summarised below. This figure is after allowing for the draw down from the Adults earmarked reserve of it's full balance of £1.7 million, and use of Better Care Fund/ Care Act budget (£3.0 million) to offset the overspend. The forecast is dependent on the increase in commitments being stabilised, and on the effective delivery of a significant level of MtC2 savings and other cost reductions to address the underlying over-spend brought forward from 2014/15, and hence is subject to ongoing risks. The forecast over-spend has increased by £0.5 million from the £3.8 million over-spend forecast reported in September.

The key variances now forecast are:

- Services to Adults with Learning Disabilities: £0.4m over-spend
- Older People and Adults with Physical Disabilities: £8.0m over-spend
- Mental Health Services: £0.7m over-spend
- Community Equipment and Telecare : £0.8m over-spend
- Other budgets (principally staffing) £0.6m under-spend

This gives the following position:

Total over-spend	£9.3 million
Less draw down from reserve	(£1.7 million)
Less Care Act funding	(£1.5 million)
Less Better Care Fund	(£1.5 million)
Less DCLG funding (replacing Independent Living Fund)	(£0.3 million)
<b>Net over-spend</b>	<b>£4.3 million</b>

With regard to services to Older People and Adults with Physical Disabilities (OP/PD), the forecast over-spend has increased from £7.1 million reported in September to £8.0 million now forecast due to an increase in commitments and under delivery of savings plans.

From 1st August the management of assessment and support planning, decision making on individual cases, and responsibility for managing the OP/ PD External Care budgets transferred back from Gloucestershire Care Services to the Council.

We are currently undertaking a review of the use of respite care and services to carers, both of which appear to be disproportionate to previous demand. It is also evident that the need for domiciliary care exceeds the availability and this may be contributing to the financial pressure, as well as the ongoing demand from hospital discharges.

Under the new arrangements the fortnightly financial monitoring meetings are chaired by the newly appointed Head of Social Care.

The aim of these meetings is for the new Locality-based managers, with advice from finance colleagues, to take collective action to bring spending down, including steps required to achieve savings under MtC2.

Early indications suggest we still have room for improvement in respect of timely data entries which is largely due to a lack of administrative capacity in Gloucestershire Care Services. This process is being very tightly managed by the Director of Operations and the DASS with support from colleagues in finance and performance. Governance arrangements require feedback through the Single Programme Board to ASMT and the Transformation Board.

Although OP/PD external care commitments remained largely static in the first ten weeks of the financial year, for the year commitments have increased by around £2.4 million. The current forecast of £8.0 million reflects this increase, and also includes under-delivery against the presumed savings profile needed to bring the budget back into balance for 2015/16. This continues to be due to slippage on reassessment work, attributed to an increased level of vacancies within teams, but also, significantly, a reduced level in confidence that savings can be delivered in other key areas during this financial year.

To address this, action has been taken regarding the filling of vacancies and opportunities for bringing in staff in the short term are being explored. However until the effectiveness of these actions, and other actions designed to bring the budget into balance are confirmed, it is prudent to forecast an over-spend of £8.0 million in this area.

With regard to services for Adults with Learning Disabilities, although only a small over-spend is currently forecast, this is again dependent on the delivery of MtC2 savings and again contains a number of risks.

In terms of the savings plan in this area, it is expected that the overall target will be achieved in-year. It should be noted that a number of the savings plans have been subject to implementation delays and the Brandon Trust block contract savings are offsetting these in-year shortfalls. Also, there continue to be risks around the capacity in support planning to carry out assessments and negotiations with partners over packages of care and the level of joint funding contributions. In the long term all savings plans should be achieved.

Other risks relate to Ordinary Residence (OR) issues which, as previously reported, result in a general pressure from other local authorities for GCC to pick up responsibility for clients who move into Gloucestershire. The new Care Act 2014 contains several provisions regarding OR and gives firm guidance. It was anticipated that in future this should alleviate many of the OR issues experienced in recent years. However, there are still likely to be additional pressures for cases already existing prior to the introduction of the Act and how the Act will be implemented is still not fully clear.

For Mental Health services, which are jointly commissioned on our behalf by the Gloucestershire Clinical Commissioning Group (CCG) (from 2gether NHS Trust- 2G), a £0.7 million over-spend is forecast.

Discussions continue between representatives from GCC, 2G and the CCG within the Short Life Working Group , to address both budgetary and contractual issues.

Community Equipment and Telecare budgets are forecast to be over-spent by £0.8 million due to an increased staffing establishment and equipment purchases, following expansion of the service to support the OPPD External Care Single Programme.

Other budgets are forecast to under-spend by £0.6 million, largely due to staffing savings.

### ***Public Health***

A breakeven position is currently being reported for Public Health, which takes account of the Public Health Grant statutory guidance requiring any under-spends to be carried forward as a reserve.

A consultation issued with regard to a proposed in-year reduction in the Public Health Grant identified the Government's preferred option would result in a £1.55 million reduction to the Grant (6.2% cut) in 2015/16. No outcome to the consultation has been published to date, but the current year end forecast assumes that the in year budget reduction of £1.55 million will be funded from the Public Health Reserve leaving an uncommitted balance of £0.3 million.

In Year there is forecast to be a £2.1 million under-spend in the public health budget, primarily due to in-year uncommitted funds, lower activity than budgeted for on FP10s and substance misuse as well as a online counselling project not going ahead. This under-spend will be transferred to the Public Health reserve, as required, to achieve the balanced budget position.

### ***Children & Families***

The current forecast of the year-end revenue position as at October 2015 for non-Dedicated Schools Grant (DSG) funded services is an over-spend position of £2.62 million (2.62% of budget) compared to the previous forecast of £2.8 million. This figure is after allowing for the draw down from the Vulnerable Children's earmarked reserve of its full balance of £1.65 million. The decrease in the over-spend is due to under-spends in adoption, supporting people, transport, children's activity grant, overheads and the release of part of a contingency for activity increases in youth support.

There has been a sustained increase in children coming into care (September 2015 542 cases compared to April 2014 479) which has caused significant pressures on children's services and in particular against the external agency placement and safeguarding budgets resulting in the over-spend. This, combined with the national shortage of skilled, experienced social workers this, has resulted in high agency staffing costs. A financial recovery plan to reduce costs is in place for external agency

placements and managers have reviewed every high cost placement to drive down the spend on the most expensive provision. Although savings of £1m have been achieved, this has been offset by new cases costing an equivalent amount. A recruitment and retention strategy is in place in respect of social workers and 40 new staff (mainly newly qualified) were recruited over the summer. The report of the Scrutiny Task group into these issues will helpfully inform the longer term strategy.

The major variances for non-DSG services, with summary explanations are as follows:

Within Children in Care the external placement budget is forecasting a £4.03 million over-spend (41.3% above budget). This forecast reflects the volume of residential placements and the complexity of these cases and also includes a contingency for new cases of £0.25 million. A financial recovery plan to reduce costs is in place with robust challenge of all high cost placements to ensure all levels of placement support are appropriate. In-house fostering services are forecasting an over-spend of £0.26 million against allowances due to the number of placements being provided.

Safeguarding staff costs within Children and Families and Referral and Assessment teams are forecast to over-spend by £1.37 million (21.1% of budget); this includes a contingency of £0.2 million for additional agency staff. This is a continuing trend from 2014/15 and is due to the use of agency staff to cover for staff vacancies, maternity leave, long-term sickness and increasingly to support high workloads within teams and where there are newly qualified workers. Section 17 and discretionary payments for children in care are forecasting to be over-spent by £0.29 million (90.1% of the budget). A recruitment campaign is ongoing to increase recruitment of permanent social workers as well as a review of caseloads and the use of innovative approaches to improving services and working conditions.

Under-spends to offset the cost pressures include adoption services where income of £0.5 million is forecast due to GCC assessed families adopting children from other authorities and access services forecasting an under-spend by £0.27 million due to home to school transport expenditure and staff vacancy savings. A review of commitments with Supporting People and children's activity grant have resulted in a projected £0.22 million under-spend and there is a further under-spend of £0.26 million which relates to variances against corporate overhead budgets and the release of a contingency. Disabled Children and Young People continue to report an under-spend of £0.44 million due to commitments against residential units and care packages.

#### Dedicated Schools Grant (DSG) position

DSG funded services are forecast to be under-spent by £4.24 million which includes uncommitted balances brought forward from 2014/15 of £4.5 million. Independent special school fees and recouPMENT budgets are forecasting to over-spend by £0.5 million due to high numbers of young people requiring specialised education provision. There are a number of smaller under-spends totalling £0.24 million across the service area. The use of balances and future commitments are in the process of being discussed at Schools Forum.

## ***Community and Infrastructure***

The current forecast outturn position for Community & Infrastructure is a nil variance, compared to a £0.1 million forecast underspend previously reported. Monitoring figures continue to indicate an overall underspend position but due to some unquantifiable factors within Highways, including the Bus Review slippage and uncertainty on the final 2014/15 position on the Amey contract, it is prudent to report a breakeven position until there is more clarity around these pressures.

The major variances within service areas are as follows:

Gloucestershire Highways are reporting a breakeven position based on spend to date and profiled spend going forward.

Health Watch continues to forecast a £0.2 million under-spend. This is due to income from third parties and the actual grant received exceeding the indicative allocation when contracts were tendered. This indicates a favourable variance long term.

Registration Service is forecasting a £0.4 million under-spend due to an increase in the income forecast for certificates and ceremony bookings.

It is possible that there will be an under delivery of £0.3 million of savings from the Customer Programme during the year, and this position is included within the overall forecast for Community and Infrastructure. This is offset by £0.1 million of staff underspend within Commissioning.

Waste is currently reporting a balanced position. There have been the usual month to month variations in the first two quarters with residual waste and dry recycling through Household Recycling Centres (HRCs), both above forecast but with lower garden waste volumes due to a cooler summer. The total tonnage accepted through HRCs is close to prediction but with the much higher cost of landfilling residual waste compared to composting green waste the HRC budget is currently 3.4% above budget. The cost of this forecast variance up to end of August (£141,000) is largely balanced by kerbside residual currently being 0.6% lower than budget (£111,000) and a net positive movement on more minor budget lines. In view of this a breakeven position for Waste is being reported whilst the situation continues to be monitored closely.

### *Residual Waste Project*

In September 2012 Cabinet approved the award of a contract for the treatment of residual waste to its waste Public Private Partnership contractor, Urbaser Balfour Beatty (UBB) to design, build, finance and operate an energy from waste (EfW) facility at Javelin Park, near Gloucester. On 22 February 2013, the Council achieved financial and commercial close with UBB, with the construction programme planned to commence in the summer of 2013.

The planning application was rejected by the Council's planning committee and then subsequently called in by the Secretary of State for Communities and Local Government (the SoS). The Project received planning permission from the SoS in January 2015 which became a Satisfactory Planning Permission in July 2015 when the Judicial Review challenge by Stroud District Council was rejected.

The contract anticipated the risk of delay and provided two mechanisms for addressing it. First, there is a cost indexation arrangement to handle the inevitable delay between February 2013 and construction start, plus a further mechanism called the RPP (revised project plan) for delays exceeding 2 years. The RPP process required UBB to set out a revised timeline and the cost implications thereof. The facility is now scheduled to come into service in 2019 instead of 2016.

This delay has resulted in increased project cost; price indexation of the capital equipment and additional financing costs. The revised project cost is outlined in Annex 1. There is an opportunity to make a one-off revenue contribution to the project, funded from reserves to mitigate the cost of delay. This will provide the council with better value for money (the approach is equivalent to reducing one's mortgage repayments, by making a lump sum contribution). It is therefore proposed that a one-off revenue financial contribution of £17m, funded from the capital fund be contributed to the project. This is in addition to the £13m approved in 2012, which is being funded from the Strategic Waste Reserve. The capital fund currently stands at £17.7 million and the waste reserve at £15.57 million.

Throughout the RPP process the project team has been supported by external specialist advisers, such as Ridge (Quantity Surveyors), RPS (Technical), E&Y (Financial) and Eversheds (Legal) to ensure that the RPP represents value for money and the timeline is deliverable.

There has been no significant change to the risk allocation of the contract. Minor changes to the contract as a result of the revision of the timeline and cost profile will be incorporated within a deed of variation, which will need to be signed by the Director of Communities and Infrastructure in December.

The project benefits are summarised as follows;

- The contract remains value for money and is expected to generate savings in excess of £150 million over its life.
- The EfW solution forms an integral part of the integrated waste management operation for Gloucestershire. It is part of the Councils aim to reduce, reuse and recycle 70% of Gloucestershire's waste. It also protects the Council from the rising cost of landfill and energy prices, diverting over 92% of residual waste from landfill which would avoid the production of methane (a greenhouse gas over 20 times more powerful than carbon dioxide).

- The EfW solution reduces the effects of climate change, significantly reducing the CO2 emissions, by over 400,000 tonnes, when compared to continuing to landfill residual waste. Electricity will be generated (equivalent to that required to power 25,000 homes) which would provide the council with a renewable and price-stable source of electricity. Any electricity surplus beyond GCC requirements would be sold to the grid.
- Work continues to understand the market for potential users to utilise the heat generated from the facility and the Council has received funding from DECC in respect of this.
- Incinerator bottom ash, a by-product of the process, would be reprocessed and used in roads and housing, reducing the need for quarrying. Metals would be recycled.
- About 300 new jobs would be created in construction and around 40 jobs over the period of the service of 25 years. There would also be apprenticeship opportunities during construction and operation and there will be a guaranteed interview for jobs at the facility for Gloucestershire residents meeting the person specification.

Given the project benefits it is recommended that Cabinet approves the request to delegate the signing of the deed of variation restatement of the residual waste contract to the Director of Communities and Infrastructure, and approves a £17 million one-off financial contribution to the project, funded from revenue reserves to mitigate the annual revenue costs of waste over the life of the project.

### ***Business Support Services***

The forecast outturn position for Business Support Services is an under-spend of £0.3 million (1.2% of budget). This reflects ongoing vacancy savings and a recommendation that a revenue contribution to capital of £0.15 million be made to support the Heritage Lottery Funded For the Record Archives project.

### ***Technical and Corporate budgets***

The forecast outturn position for Technical and Corporate budgets is a £2.7 million under-spend (5.8% of budget). This is mainly due to £1.8 million additional funding notified since the 2015/16 budget was approved, as previously reported to Cabinet; a £0.6 million over achievement of income against the interest credits budget, reflecting increased returns for longer term investments with other local authorities, and higher investment balances being made available following earlier receipt of government grants. A £0.2 million under-spend is also forecast on the carbon reduction programme budget and a £0.1 million under-spend on external audit fees.

## Section B: Capital Expenditure

### Current Spend 2015/16

4. The capital budget for 2015/16 is £83.3 million, whilst the actual spend against the capital programme as at end of September 2015 is £23.8 million.

The nature of capital investment means that spend tends to be lower during the first phase of a scheme with the majority of spend occurring once the construction phase begins. This means that for new schemes the majority of spend will occur towards the end of the financial year.

### Forecast Outturn Position 2015/16

5. The forecast outturn position for 2015/16 is £78.4 million, which gives an under-spend position of £4.9 million, although the total approved scheme budgets remain unchanged and will be spent in order to complete each scheme.

Details of the forecast year end position, analysed by service area, and key factors considered in producing this forecast position, are provided in the table below and the narrative that follows.

<b>CAPITAL EXPENDITURE 2015/16</b>					
<b>Service Area</b>	<b>Reprofiled Budget 2015/16</b>	<b>Current Year Spend 2015/16</b>	<b>% Current Year Spend against Reprofiled Budget</b>	<b>Forecast Outturn 2015/16</b>	<b>Forecast Year-end Variance</b>
	<b>£000</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
<b>Capital Receipts Works Before Sale</b>	0	0	0	0	0
<b>Adults</b>	1,938	213	11	1,742	-196
<b>Children &amp; Families</b>	28,718	13,637	47	27,810	-908
<b>Other:</b>					
Infrastructure	37,273	7,595	20	37,273	0
Business Support Services	13,702	1,825	13	10,038	-3,664
Libraries & Archives	569	127	22	402	-167
Safety	1,098	363	33	1,098	0
<b>Total</b>	<b>83,298</b>	<b>23,760</b>	<b>29</b>	<b>78,363</b>	<b>-4,935</b>

### Adults

The Adults capital programme is forecast to spend £1.74 million in 2015/16 against the budget of £1.94 million, due to unavoidable slippage in the GIS project.

### Children & Families

The Children & Families capital programme is forecast to spend £27.81million in 2015/16 against the budget of £28.72 million, which is due to predicted slippage of £0.91 million across a number of schemes.

### Other

#### *Infrastructure*

Current monitoring indicates that Highways infrastructure will spend in excess of the 2015/16 budget, which is mainly due to differences between early estimates and final design estimates increasing costs on many schemes and changes in central government funding streams (where integrated transport funds previously used for structural maintenance have transferred to the LEP) leading to a more restrained capital budget. Officers are working to manage the programme to stay within budget and the forecast for year end is that spend will be in line with budget, although this may lead to some scheme deferrals. A decision will need to be made as to whether the programme is reduced or alternative funding is found.

#### *Libraries & Archives*

Libraries Capital programme is forecast to spend £0.40 million against the budget of £0.57 million due to slippage across a number of schemes.

#### *Business Support Services*

The AMPS capital programme forecast has slipped by £4.0 million, mainly due to delays associated with the MTFs Shire Hall Refurbishment Programme and the Blackfriars & Quays Re-development. The total budget requirement for the whole life of each scheme remains the same.

ICT is forecast to spend £0.3 million higher than approved budget in 2015/16, due to unforeseen hardware costs and associated licences relating to a SAP server upgrade for £0.08 million and a Server replacement and refresh for £0.22 million.

## ***Changes to the Capital Programme***

At present there is an approved scheme in the Children & Families capital programme to replace 3 life-expired demountable classrooms at Thrupp Primary School. The current budget is £0.3 million. More detailed feasibility planning has indicated that the cost of replacing the buildings, with the difficult constraints of the site, is likely to be nearer £0.6m. These buildings are critical to the operation of the school and have reached the end of their useful life.

It is recommended that £0.3 million of approved capital grant funding be transferred to the Thrupp Primary School project by taking £0.15 million from a £0.75 million budget for kitchen upgrades, as alternative funding for kitchens has been identified from capitalised revenue funding, and £0.15 million from the temporary buildings replacement budget.