

Audit & Governance Committee

Dorset County Council



Date of Meeting	20 January 2017
<p><u>Lead Officer</u> Richard Bates – Chief Financial Officer</p>	
Subject of Report	Budget monitoring report – December 2017 (period 9)
Executive Summary	<p>This report provides information on the forecast of outturn against the budget for the 2016/17 financial year based on the latest available information from the Directorates. The report also updates Members on progress on measures being developed to achieve a balanced budget for 2017/18 and beyond.</p>
Impact Assessment:	<p>Equalities Impact Assessment: This report does not involve a change in strategy, it is an update on what has happened under current policy.</p>
	<p>Use of Evidence: This report draws on information from the Authority’s accounting systems and other financial records and relies on reports and allocations from Government for future funding plans.</p>
	<p>Budget: The report provides information about the Authority’s performance against its agreed budget for 2016/17 and a brief update on the budget challenges that lie ahead.</p>
	<p>Risk Assessment: Having considered the risks associated with this decision using the County Council’s approved risk management methodology, the level of risk has been identified as:</p>

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	Current Risk: High Residual Risk: High
	Other Implications:
Recommendation	Members are asked to consider and comment on the forecast position for 2016/17 and actions being taken through the Forward Together 2020 programme and the Budget Strategy Task & Finish Group.
Reason for Recommendation	To understand the anticipated pressures on the budget for 2016/17 and beyond and to assess whether the strategies in place will successfully address the projected performance during the year.
Appendices	<ol style="list-style-type: none">1. CPMI summary December 20162. FT dashboard summary December 2016
Background Papers	Previous quarterly forecast reports and MTFP updates to Cabinet (most recent being 18 th January 2017).
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1. Background

1.1 Current Governance arrangements and committee structures mean that the Audit and Governance Committee now receives a consolidated report of the County Council's predicted financial performance for the year.

2. Forecast of outturn – period 9

2.1 The table below sets out the forecast of outturn predicted by the County Council's Directors and Heads of Service at the end of December – an overspend of £9.6m. This forecast is £1.7m worse than was predicted to the committee in August, this is mainly due to a significant increase in the projected overspend expected in Adult and Community services as well as further deterioration in the predicted performance for Children's, other areas have improved their expected performance to offset these increases in part. More detail is provided in the summary CPMI table at Appendix 1 and there is accompanying narrative on each Directorate's forecast performance, below. Appendix 2 also sets out the position on FT2020 programme savings anticipated for the current year.

Directorate	Net Budget	Forecast Outturn	Forecast Variance
	£m	£m	£m
Adult & Community Services	124,317	128,959	(4,642)
Children's Services	57,331	64,500	(7,169)
Environment & Economy	36,054	36,664	(610)
Partnerships	20,715	18,517	2,198
Chief Executive's Dept	9,554	9,645	(91)
Total Service Budgets	247,972	258,285	(10,313)
Central/Corporate Budgets	(255,407)	(256,118)	711
Whole Authority	(7,435)	2,167	(9,602)

Adult & Community Services

2.2 The Adult & Community Services Directorate budget is forecast to be overspent by £4.6m.

2.3 The Adult Social Care (ASC) budget is forecast to overspend by £5.4m. The ASC Service User Related budget (£59.1m) forecast this year has been suppressed in the expectation that control measures to reduce the historic overspend would be in place. However, that has not happened. The spend has continued to rise and the forecast overspend now stands at somewhere in the region of £7.6m. This overspend is offset in part by underspends in pay budgets of around £500k and the application of one-off reserves totalling £1.7m.

2.4 Key factors in the overspend are:

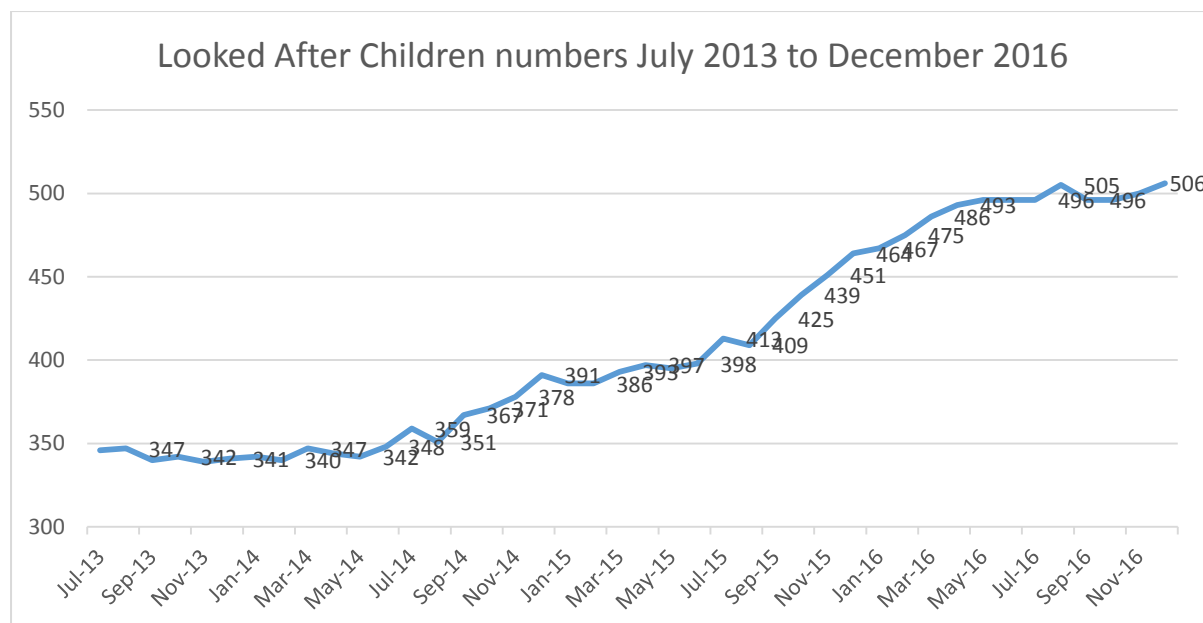
- Increase costs of care through increasing off framework purchasing and lack of market management
- CHC pick-up totalling around £1.7m
- Capital below cases

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- We have not been able to review down the cost of care for those currently in receipt of a service to offset the increases
 - Increased acuity of packages
- 2.5 The Commissioning & Performance Budget is forecast to be underspent by £362k. The overspend is due primarily to long-term vacancies across the Safeguarding and Business Development Teams.
- 2.6 The Early Help & Communities budget is forecast to overspend by £51k. This can be partly attributed to a reduction in the use of Library buildings by Skills & Learning which has resulted in a lower forecast of income from room hire and lower than anticipated expenditure on Blue Badge scheme within Early Help. On the plus side, we are due to receive additional external income for work already carried out by Trading Standards. Work continues to identify savings to meet Forward Together targets within the Library Service.
- 2.7 The Director's Office budget is currently forecast to be underspent by £369k. This largely reflects the 'to be allocated budgets' within the overall budget.

Children's Services

- 2.8 The new Care and Protection service came into operation from 5th September following a restructure of the social work function of the County Council to improve service delivery and respond to the recommendations of the Ofsted inspection report.
- 2.9 The number and cost of children who are looked after by the County Council continues to be a significant cost pressure this year. The budget process identified an additional budget of £3m a year to address the growth in the numbers of looked after children from around 340 to 400 - broadly what would be expected of an authority of Dorset's size - and reflects the growth in numbers seen nationally as a result of various social work practice changes. The actual number of looked after children when the budget was set was 467 and it was recognised that this figure would probably peak at around 500 during mid to late 2016 before reducing to the anticipated, longer-term level of 400 by autumn 2017. To recognise this, the County Council set aside additional one-off funding of £4m for 2016/17 and £1m for 2017/18.
- 2.10 At the end of December the number of looked after children (LAC) was 506, slightly higher than the projected peak of 500. However, as part of a Government initiative, a number of unaccompanied asylum seeker children (UASC) have been taken into care by Dorset. These costs are funded by the Government and therefore have limited impact on the budget. The underlying figure therefore stands at 494, an increase of 5 on the previous month. The chart below shows the number of children in care since July 2013 and that the growth in numbers had appeared to have slowed.



- 2.11 The costs of looking after children within the County Council can be expensive with some secure residential placements costing over £7k a week. The standard annual cost of looking after a child is a minimum of £30k a year if placed with an in house foster carer or up to £50k a year with an independent foster agency. With such high marginal costs and the critical nature of child protection, predicting the outturn against these budgets is difficult. These costs represent the direct payments to carers and do not factor in the social worker time and overheads associated with supporting children in care.
- 2.12 The current central forecast, based on the current cohort remaining in their current care setting indicates that the budget will be overspent by £5.4m on these placements, although this will be offset by the £4m of one-off budget that has been set aside, resulting a net overspend of £1.4m. This is partly because the cost of placements has been higher than budgeted, predominately because of a shortage of in-house foster care placements. This has meant that children have been placed in more expensive, independent foster care and other residential placements. If the number of LAC reduces in line with the budget assumptions then the overspend will reduce, although the later in the year this reduction happens to lower the impact on the 2016/17 budget position.
- 2.13 The legal costs associated with this level of LAC and the court orders required to make children safe has also resulted in a pressure in this area of around £500k.
- 2.14 There is currently a national shortage of social workers and all local authorities are struggling to recruit and retain experienced staff. This means that agency staff have to be brought in to cover vacancies and ensure that caseloads are kept at safe levels. Whilst the Directorate has been optimistic that there would be a reduction in the need for agency workers, with a lot of energy been spent on developing recruitment and retention strategies, there continues to be pressure on this budget. There are currently 51 agency staff employed covering vacancies, sickness and maternity leave. It is anticipated that this will remain the case for the remainder of the financial year, although 17 new starters have been appointed and should all be in post by the start of the 2017/18 financial year. The recruitment and retention drive continues with the view to reduce agency in line with the report to Cabinet on 10

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October 2016. However, costs are still likely to be significant, and agency numbers remain high meaning that there will be an overspend in this area of £2.4m.

- 2.15 The new Prevention and Partnership service also came into effect from September as a result of the departmental reshaping. Within this there are several pressures, specifically in relation to:
- Special Educational Needs and Disabilities (SEND) - the need to accommodate several children in independent, residential placements, which has added pressure of £600k to the Prevention and Partnerships special educational needs budgets. These placement costs are typically shared with Health and Education and these agencies are working together to reduce these costs.
 - Family Partnership Zones – a new structure to support and coordinate early help and prevention commenced on the 5th of September. The new targeted Youth workers are part of these new arrangements along with the Children's Centres and the former locality teams in 7 geographical areas. The budget area related to the youth service review will not fully realise the total savings hoped in this financial year. The review will save £1m a year in total, but the Family Partnership Zones budget will be £100k overspent due to this slippage as more time has been required to allow community groups to be facilitated to take on former DCC buildings.
 - SEND transport – an optimistic savings target of £1.25m was identified in this area as part of the budget process. However, it is unlikely that all of this will be achieved in 2016/17, partially due to an increase in the volume of children who have become eligible for SEND home to school transport and some complications during the retendering of some of the route contracts. Based on the data from Dorset Travel, following the retender and rearrangement of routes for the start of the academic year, it is likely that there will be an overspend against the new budget of £2,043k. Work is taking place to fully understand the position and it is still felt that large savings will be made once the main contracts are renewed in 2017/18.
- 2.16 Overall therefore, the Children's Services overspend position for 2016/17 is anticipated to be £7.2m. At this stage in the year, measures to reduce the overspend will have a low impact as the year end approaches. A concerted effort is being made to return children home where it is safe and the looked after children overspend could be reduced by around £750k if the numbers of LAC begin to reduce and the position around agency social workers can be resolved.
- 2.17 The Dedicated Schools Grant budgets are ringfenced to schools, but there have been a number of emerging pressures, specifically in relation to the High Needs element of the funding which is retained and managed by the County Council on behalf of the schools. The Government had recently extended the scope of the High Needs funding, which meant that it had to cover educational costs of children and young people up to the age of 25. This expansion of the age range, coupled by an increase in the number of children who are applying for Education, Health and Care plans is placing unprecedented pressure on both the locally retained budget and schools' own budgets. The pressure in this area is £5m for the financial year. Efforts are being made to set a balanced budget for 2017/18, but this deficit will have to be recovered in future years.

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Environment & Economy

- 2.18 The total Directorate forecast overspend is £610k on a net budget of £36.1m, with detail relating to individual services as follows –
- 2.19 Economy, Planning & Transport – Most budgets are generally on track to balance. Unmet Forward Together saving targets and lower than anticipated planning application income have been met by achieving savings elsewhere.
- 2.20 Dorset Travel – The savings target of £600k from mainstream transport continues to be a risk. Routes with a current value of £1 million have now been retendered, however, cost increases to these routes have negated efficiency savings elsewhere in mainstream. Savings to public transport have been exceeded with a likely underspend of £118k which are currently offsetting overspends in Fleet Operations. Income from new public routes is forecast to increase the underspend in the public transport budget to £150k. The decrease in overspend of £75k from November was due to a saving from the Community Transport Budget.
- 2.21 Business Support Unit – This budget is now projecting a cautious underspend of £15k, despite uncertainty over realising forward together savings from implementing automated timesheets for highways staff. This has been achieved by holding vacancies where possible, pending the outcome of the Business Support Unit review.
- 2.22 Coast & Countryside – The forecast overspend for Coast & Countryside at the end of December is £52k, which is a significant decrease from the November forecast. There is optimism for a balanced budget by the end of the financial year. The underspend in Coast & Countryside General, relating to reduced cost of verge management, needs to be read against the overspends in the Greenspace Teams, where the work is undertaken; there is confidence that Environmental Advice and Community Energy Teams will be at or near balanced budgets. The actual outturn from Arboriculture will be dependent on the winter weather, but is forecasting a balanced budget now, and has hit its income target already. However, there is little prospect of being able to make further savings on the Hosted Partnerships budget.
- 2.23 Estates & Assets – The Estate and Assets Service budget (Team budget, County Buildings, County Farms and Depots) is forecasting an underspend of £21,849 which is an improvement of £62,440 on the previous month. This is down to several factors including improved income forecasted from County Hall catering due to improvements to the facilities (£16k), reconciliation of income from the Colliton Club (£13.5k), additional income generation forecasted by the Estates & Assets team (£18.5k); and some underspends on running costs of buildings. However, the Way We Work property savings target has worsened considerably from the previous forecast, by £173k. This is due to a decision that depreciation on disposed buildings cannot be included in this savings target (£140k), a slippage in harvesting maintenance savings on the Youth Centres since the current year's budgets had already been spent (£38.3k) and slippage in the disposal of a few office buildings. Overall therefore the budget is projecting an overspend of £302.4k.
- 2.24 Buildings & Construction - is currently forecasting a £416.8k underspend. The underspend results from managed vacancies, exacerbated by staff loss. We have stepped up our recruitment effort as a number of new significant capital projects are on the horizon and have had success in making architectural appointments, however recruitment remains problematic with engineers. The Repairs and Maintenance team are forecasting a reduction in income on account of:

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a) The current emphasis on "repair" rather than "replace". This approach does impact on income however it will result in overall cash savings to the authority.

b) The uncertainties around the future of the estate as youth centres are being transferred to the community, schools are being converted to academy status and the core property list is being further developed. It is likely there will be a significant saving in programmed R&M capital expenditure, however, there will be a corresponding reduction in fee income.

c) Investment in resourcing the re-procurement of the Repairs, Maintenance, Minor and Smaller Capital Works Framework which will serve the authority (and its successor, if applicable) for four years.

2.25 Schools Pooled Repairs & Maintenance – It is assumed that this service will spend within budget.

2.26 Network Management – Whilst the forecast underspend is now £37k for Network Management which is an increase in underspend of £35k from November due to an increase in forecasted income from the Traffic Regulation Orders. There is still concern in relation to the Parking Service who currently have projected income relating to the rollout of Pay and Display across Dorset Towns (£100k) along with the £50k relating to visitors and residents parking on the County Hall campus

The visitor parking target is not based upon known visitor numbers and there would be an investment of capital, estimated to be in the region of £20k to create a Pay & Display Car Park within the County Hall campus which is now operational. There is now a level of confidence of achieving the £20k revenue from the County Hall car park for a full financial year. Residents parking is less likely as there seems to be very little demand at present.

With regard to pay and display across Dorset towns, £100k is the surplus from a good sized town revenue and would be achievable under certain circumstances. The problem is timescale in that the design, consultation, legal order process and installation is likely to be 12 months before any income is realised. Capital would be needed to implement and public objection is also highly likely. The Sherborne scheme is currently at the consultant stage.

2.27 Network Development – There is a projected underspend of £5k. A review of capitalised staff costs and updated figures for August indicate that the risk of overspend is much reduced. There is one vacancy, one member of staff on maternity and one posts for a trainee engineer which not be taken up until June 2017. The net result is that there is an under recovery of overheads against capital. This will improve if Highways Improvements are able to take on temporary resource to cover these vacancies. Training costs have increased due to staff starting HNC courses over 2 years. The overhead rate applied to capitalised staff has been refined downwards over a number of years, but there is a concern that this year the overhead rate has been reduced to an unsustainable level. Consequently for Quarter 4 the overhead will be reviewed.

2.28 Network Operations - is forecast to be underspent by £14k. Most of the cost centres within the Operations division are showing a positive outturn however this could easily change as we go into the winter months, especially in relation to the winter budget. The Sign Shop is still predicting a negative outturn for year end however there is still some cost centre transfers to carry out to move costs from revenue to

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capital codes. The construction delivery cost centre is showing a positive outturn and is in a good position for the time of year.

- 2.29 Fleet Services – Previous forecasts reported an underspend of £0.9k, however an underspend of £21k is now being reported. This improvement is due to a number of budget adjustments and improved income management. Informed forecasting and controls on expenditure provides confidence that a balanced budget can be achieved however, this will very much depend on the weather as any prolonged cold/wet weather will impact on the service and the budget.
- 2.30 Emergency Planning (now within the Environment and Economy Directorate) - This budget is forecasting a balanced budget.
- 2.31 Director's Office – The forecast overspend of £246k relates mainly to the second year effects of the Directorate restructure, after allowing for limited expected and actual vacancy management savings, that are relatively secure.
- 2.32 Street Lighting PFI – This is a 25 year contract with a ring-fenced budget and is managed through a sinking fund.
- 2.33 ICT and Customer Service Unit (now within the Environment and Economy Directorate) - The service as a whole is now projecting a £170k overspend due to a prudent view being taken of cost recovery from capital projects. The Wide Area Network costs have benefited from a 'one off' credit which aids the overall service position. Vacancy management has continued to decrease the forecast spend on staffing and related costs.

Partnerships

Dorset Waste Partnership

- 2.34 The budget was set at £34.205m, of which the DCC share is £22m (64%). The forecast of budget variance for 2016/17 at December is an underspend of £1.28m. The DCC share of this underspend would be £823k.

The favourable variances arise primarily from reduced prices in relation to a major contract that has been renewed in 2016 (£302k), Joint Committee decisions on reduced Household Recycling Centre opening hours (£158k) and a reassessment of the life of the stock of wheeled containers (£250k). The Garden Waste and Commercial Waste services both have a favourable variance (a combined total of £463k). Savings on the year to date (£264k) are being made on recycle costs, where the price per tonne is currently lower than the budget assumption of £20 / tonne. Adverse variances involve additional disposal costs (£150k), where waste arising cannot now be transferred to a cheaper outlet as quickly as planned, and additional tonnages of waste arising (£159k).

Some slippage on capital financing costs relating to infrastructure projects (£40k) and vehicle purchases (£112k) also continues to be acknowledged.

Public Health

- 2.35 The MTFP assumes a £700k contribution from Public health in 2017-18. This position has changed slightly and this contribution will effectively be received in 2016/17. The Joint Public Health Board (JPHB) agreed to release £2.3m of

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accumulated reserve plus a further £200k of in-year savings back to the three constituent local authorities. Dorset County Council will receive 55% - nearly £1.4m. Further savings in 2016/17 and 2017/18 could also be released subject to JPHB approval.

Chief Executive's Dept

- 2.36 The Chief Executives Department is forecasting an overspend of £91k at the end of December. This forecast recognises the transfer of the IT and Emergency Planning services to the Environment Directorate and the Coroners Service to the Adult Services Directorate. The main factors influencing the overspend are:-
- 2.37 The Chief Executive's Office and Assistant Chief Executive's Office are forecasting underspends due to staff vacancies arising from the restructure of the Directorate's management team.
- 2.38 The Policy and Research department is projecting a £66k overspend largely attributable to increased staff costs in respect of increments, an unachievable vacancy factor of £29.4k and reduced income levels. The service however is hoping to achieve some one off income in respect of a new system that has developed (SWIM project).
- 2.39 Commercial Services is predicting an overspend of £26k, an improvement since the last report. This has been achieved through reducing supplies and services spend and increased income levels. There are several key pressures on the services including a £50k share of the Directorate-wide savings target and a decrease in planned income due to staff vacancies and a delay in a review of the funding of the NEXUS system.
- 2.40 Legal and Democratic are forecast to overspend by £108k, an increase since the last report. The main cause of this is in the salaries budget where pressures include JE awards and the inability to meet the high vacancy factor. There has also been a delay in the planned Democratic Services restructure.
- 2.41 The Financial Services budget is projecting a £6k underspend. As reported previously the service has undergone a restructure which was implemented in October. However the service has absorbed a £60k share of the Directorate's base budget problem as well as £140k share of the Forward Together for Support Services transformation savings target bought forward into this financial year.
- 2.42 The HR budget is forecasting a £49k underspend, an improvement from the last report. This has been achieved through vacancy management.

Central/Corporate Budgets

- 2.43 The Central/Corporate Budgets are showing an underspend of £711k, this compares to a £21k overspend reported in August. We are expecting a shortfall on the Education Services Grant of £111k due to academy conversions during the year. Whilst there is still a shortfall on the interest receivable budget of £155k this is offset by a significant reduction in the cost of borrowing resulting in a net underspend of £321k across the financing area. The contingency budget is also expecting a £500k underspend.

3 Forward Together 2020

- 3.1 Work continues on the Authority's transformation programme, FT2020. Each of the Directors has given a formal update of the transformation programme in their own areas to the Budget Strategy Task & Finish Group. A summary of the progress against savings targets is also set out in Appendix 2.
- 3.2 Overall, progress against target savings of £10m for 2016/17 shows that nearly £4m has already been achieved, with a further £2.6m on course. £1.1m needs more work to deliver and around £2.3m has been deemed unachievable – mainly SEN transport savings and slippage from Youth Service reconfiguration in Children's Services and mainstream transport savings in the Environment & Economy Directorate.

4 Budget Strategy Task & Finish Group

- 4.1 The Group continues to meet monthly and as mentioned, has now received full briefings on the transformation work going on in each of the Directorates. The Group has also received savings proposals from Members which are currently being considered for Budget Strategy 2017/18.
- 4.2 The Cabinet is due to receive an update on the MTFP and the Authority's draft efficiency plan in consideration of the four-year budget offer at the 28th September meeting. This will be on the back of a predicted overspend set out in this report which would potentially claim more than half of our general balances and draw us down below the bottom-end of our operating range.
- 4.3 It is therefore absolutely imperative that the actions being taken to bring the budget back towards a balanced position, particularly within Children's Services, are understood and owned throughout the organisation, and robustly owned, monitored and implemented by senior management. If the position cannot be turned in the right direction in the next two months then further action will be necessary across the whole of the council to reduce non-essential spend.

Richard Bates
Chief Financial Officer
January 2017

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Appendix 1

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Appendix 2