

13 July 2016		ITEM: 6
Cabinet		
Briefing Note: 2015/16 Financial Outturn Position		
Wards and communities affected: All	Key Decision: Non-Key	
Report of: Councillor Shane Hebb, Portfolio Holder for Finance and Central Services		
Accountable Head of Service: Sean Clark, Director of Finance and IT and Section 151 Officer		
Accountable Director: Lyn Carpenter, Chief Executive		
This report is Public		

Executive Summary

The Council has benefited from a recent history of prudent financial management and effective technical accounting to meet the diverse financial challenges arising in 2015/16. These include demand-led social care pressures, re-profiling of the Transforming Homes programme and the termination of the shared services contract with Serco. These challenges have been achieved while continuing to support local communities by delivering services in more efficient and innovative ways.

This report provides a high level summary on the outturn for 2015/16 for the General Fund, Housing Revenue Account and Capital.

The key message in the context of the pressures noted above is the General Fund Reserve balance has been maintained at £8.0m and the Housing Revenue Account Balance has retained a balance of £1.754m. This is in line with the Reserves strategy agreed by Council.

1. Recommendation(s):

That the Cabinet:

- 1.1 Note that the General Fund Reserve has been maintained at £8.000m, after funding exceptional items from useable reserves and that a review of this balance will take place and be reported back accordingly;**
- 1.2 Note that the balance on the Housing Revenue Account Reserve at 31 March 2016 is £1.754m and the Development Reserve has supported the Transforming Homes programme with a remaining balance of £0.634m; and**

1.3 Note that there was a total of £64.430m in capital expenditure and some of the key projects set out in section 4

2 2015/16 General Fund (GF) Position

- 2.1 Cabinet will be aware that the 2015/16 budget was set after a number of challenging savings proposals were agreed resulting in some level of service reduction. This budget was set prior to the decision to bring the Serco services back in-house and the associated costs of this.
- 2.2 In July 2015, officers reported that there were additional budget pressures of £1.683m arising from a reduction in the public health grant, increased costs in environmental services and the risk of Serco savings not being delivered. That same report identified the impact on the Medium Term Financial Strategy and the potential need for service reductions and the need for further negotiation with Serco to release savings. A strategic approach to shaping the Council financially was taken forward in June 2015 identifying priorities to take to the subsequent Budget Review Panel meetings where each service area was considered in detail.
- 2.3 In September 2015 there remained pressures totalling £1.269m which continued to relate largely to the environmental pressures and the shortfall in Serco terms and conditions and the lack of agreement on the delivery of the required Serco savings. There was a further £0.4m pressure arising from the Sita recycling issue. There remained underlying social care issues which were being monitored. The contract negotiations with Serco led to the decision to terminate the Strategic Services Partnership from 1 December 2015. This identified termination costs of £9.9m plus £3.5m pension costs which would be offset by ongoing savings of circa £3.6m per annum. It was also noted the termination payment would be largely funded through the change in accounting for the minimum reserve provision.
- 2.4 In November 2015 significant pressures in Children's Services were noted with a forecast outturn of £2.233m over the budgeted position. This was offset by further identified mitigating actions but the Serco pension liability remained as an identified pressure. In January 2016 Cabinet approved the use of capital receipts to fund the Minimum Revenue Provision (MRP) to enable the cost of the Serco pensions to be met in 2015/16.
- 2.5 By March 2016 the pressures in Children's Services were expected to increase to a maximum of £5.9m subject to further mitigating action.
- 2.6 In total, the Council has maintained the general fund balance of £8.0m including the use of reserves to finance the exceptional items arising during 2015/16. The table below reports on the original 2015/16 structure

	Revised Budget	Outturn	Budget Variance	Comments
	£m	£m	£m	
<i>Service:</i>				
Adults. Health & Commissioning	31.820	31.985	0.165	
Public Health -Expenditure	10.550	10.184	-0.366	See para 2.8
Children's Services	29.896	35.510	5.614	See para 2.9
Environment	18.108	18.579	0.471	See paras 2.2/2.3
Planning & Transportation	7.127	6.860	-0.267	See para 2.10
Chief Executive's Office	12.749	11.129	-1.620	
Treasury	7.907	3.981	-3.926	See para 2.11
Chief Executive's Delivery Unit	2.589	1.189	-1.400	See para 2.12
Commercial Services	14.925	13.519	-1.406	See para 2.13
Public Protection	1.737	1.652	-0.085	
Housing Services	0.735	0.595	-0.140	
Service Total	138.143	135.183	-2.960	
<i>Financed by:</i>				
Other Non-specific Grants	-14.358	-15.884	-1.526	
NNDR	-26.780	-26.806	-0.025	
RSG	-26.462	-26.535	-0.073	
Council Tax	-54.758	-54.838	-0.080	
Total Financing	-122.358	-124.063	-1.704	
Direct Total	15.785	11.120	-4.664	
Levies & Recharges	-12.656	-12.569	0.087	
Exceptional	0.000	11.700	11.700	See para 2.14
Net operating deficit after exceptional items	3.129	10.251	7.123	
Use of Useable Reserves	-3.129	-10.251	-7.123	See para 2.15
Overall impact on General Fund	0	0	0	

2.7 In 2015/16, the following items are noted:

- 2.8 Public Health has an agreed carry forward within the ring fenced grant to support the significant reductions in funding in 2016/17. A number of contracts were commissioned until March 2017 and were transferred to the Council as part of the transfer from the Primary Care Trust and NHS England. Where possible all contracts have been reviewed for potential savings but in some cases this has not been possible as these contract savings cannot be made until they are fully renegotiated at the end of their agreements.
- 2.9 The overspend in Children's Services relates to a combination of factors including service pressures that have meant in year savings on staffing and placements have not been able to be achieved. The staffing costs were made up of both increased numbers over establishment because of demand pressures and the costs of agency staff as recruitment and retention continue to be a problem. Placements costs have remained at a similar level to 2014/15, however the original budget proposed significant savings. The number of Unaccompanied Asylum seekers has continued to increase, and this has meant a significant pressure on the budget, as rates paid by the home office are considerably below the costs incurred.
- 2.10 Expenditure in Planning and Transportation is balanced by the agreed utilisation of earmarked reserves to progress the Local Plan and hence there is no overall impact on the general fund.
- 2.11 The underspend of £3.926m in Treasury relates predominantly to savings arising from the rescheduling of minimum revenue provision payments, greater returns on investments and lower than expected interest payments.
- 2.12 The underspend in the Chief Executive's Delivery Unit relates predominantly to community hub grant funding received but earmarked for future periods and additional income from shops and premises. The remaining underspend has been earmarked for the Local Authority Business Growth Initiative and for Regeneration.
- 2.13 The underspend of £1.406m on Commercial Services relates to the savings arising from bringing the services within the Strategic Services Partnership back in-house from 1 December 2015.
- 2.14 The exceptional item relates to the total costs of termination of the Strategic Services Partnership with Serco. These totalled £13.4m which consisted of £9.9m termination payment and £3.5m of pension costs. £11.7m of the costs have been charged to the general fund, £1.2m to the Housing Revenue Account and £0.5m has been capitalised.
- 2.15 Use of Useable Reserves – Useable Reserves of £10.251m have been released to fund the in-year pressures arising and the Serco termination payments. This includes £3.562m of Minimum Revenue Provision that has been funded from capital receipts following a change in the Council policy.

3 Housing Revenue Account (HRA)

3.1 The 2015/16 financial outturn position for the HRA is:

Service	Revised Budget £m	Revised Outturn £m	Revised Variance £m
Rent and income	(48.828)	(48.791)	0.037
Repairs and maintenance	12.671	12.871	0.200
Supervision and management	10.734	10.913	0.178
Financing and overheads	24.547	25.405	0.858
Service improvement	0.083	0.021	(0.061)
New build and regeneration	0.793	0.481	(0.312)
Operating Position	0	0.900	0.900

3.2 The key variances that stand out in the HRA are as follows:

- Rent and Income – overspend of £0.037m. There was a slight increase in voids during the year, an increased level of Right to Buy (RTB) sales compared to the assumptions made in the budget and delays in letting the new build properties.
- Repairs and Maintenance – overspend of £0.200m. Expenditure on voids was higher than budgeted due to a larger than budgeted number of properties falling void during the year along with increased costs relating to exclusions from the price per property contract with Mears;
- Supervision and Management – overspend of £0.178m. This was due to increased consultancy and agency costs across the HRA;
- Financing and Overheads – overspend of £0.858m. This relates to the HRA charge relating to the Council's decision to terminate the contract with the Strategic Services Partner in 2015/16. This totals £1.2m and is partially offset by a reduction in borrowing costs of £0.3m. The borrowing costs for the various new build schemes have not been as high as originally expected resulting in the underspend.
- New Build and Regeneration – underspend of £0.312m. The budget is the remaining surplus from the original budget to be used towards new build and regeneration. The negative outturn is due to previous costs relating to

pre-development that were met from revenue now being capitalised as development is realised.

3.3 The impact on Reserves are set out in the table below:

Reserve	Opening	Movement		Closing
	£m	In £m	Out £m	£m
Unallocated HRA Balance	(2.654)	(0.300)	1.200	(1.754)
Development Reserve	(3.117)	0.000	2.483	(0.634)
Transforming Homes	0.000	(13.736)	13.736	0.000
One for One Receipts	(4.403)	(5.226)	3.250	(6.380)
Non Ring-fenced Capital Receipt	(0.393)	(2.284)	2.677	0.000

3.4 The reserve position has been used to support the transforming homes programme during the year.

3.5 The programme has accelerated ahead of the profiled budget enabling the delivery of works in advance of planned timescales. While this has brought associated costs forward into 2015/16 the overall cost profile of the programme is unchanged.

3.6 Other reasons for the movement from the profiled budget are as follows :

- Provision was made for capital expenditure on EON external wall insulation.
- There was a higher level of spend on capital voids
- Interim arrangement for Transforming Homes contractors were put in place to undertake reactive boiler replacements arising from breakdown visits

3.7 These items have enabled £6m of works to be brought forward into 2015/16. The increased spend profile has resulted in the use of £2.483m from the HRA Development Reserve and the full use of the Non Ring-fenced Capital Receipt Reserve in 2015/16. These resources along with the Revenue Contributions to Capital Outlay have been used to finance the full spend in 2015/16. The overall budget for Transforming Homes remains the same at £58.4m. The associated financing has also been reprofiled and the reserves utilised in 2015/16 will be built back up to support the remaining 5 years of the programme.

3.8 Moving forward the programme is to be reviewed as part of the HRA business planning process. The original programme agreed was based around historical asset information and it is now timely for a review that considers actual costs to date alongside the impact of the extended timeframe for the programme and changes to the financial regime.

3.9 The impact of increased RTB sales, void rates and delays in releasing new build properties to tenants is being analysed and remodelled as part of the update to the HRA Business Plan. It is likely there will be pressures arising in 2016/17 as a consequence.

4 The Capital Programme

4.1 The total capital expenditure for 2015/16 amounted to £64.43m. A summary of this expenditure analysed by service, is set out below and also shows the source of financing:-

Table 1 - Capital Expenditure and Sources of Finance 2015/16

Service	Approved Budget £m	Total Spend £m	Variance £m
Learning & Universal Outcomes	10.628	8.745	(1.883)
Adult Social Care	0.128	0.061	(0.067)
Housing General Fund	1.402	0.949	(0.453)
Environment	3.396	1.763	(1.633)
Planning and Transportation	8.320	5.908	(2.412)
Commercial Services	0.454	0.123	(0.331)
Transformation	8.500	3.375	(5.125)
Chief Executives Delivery Unit	11.619	6.022	(5.597)
Housing Revenue Account	36.511	37.484	0.973
Total	80.958	64.430	(16.528)
Source of Finance			
Prudential Borrowing	38.181	26.435	(11.746)
Supported Borrowing	0.031	0.031	0
Useable Capital Receipts	1.156	0.064	(1.092)
Earmarked Useable Capital Receipts	5.926	5.926	0
Major Repairs Reserve	13.736	13.736	0
Grants	16.207	13.272	(2.935)
Developers Contributions	2.788	1.292	(1.496)
Trusts	0.197	0.105	(0.092)
Reserves	2.736	3.569	0.833
Total	80.958	64.430	(16.528)

4.2 The capital outturn position includes the delivery of the following projects in 2015/16:

- £19.59m spent on transforming Council homes, with the replacement of kitchens, bathrooms, electrics, boilers, windows and roofs. The transforming homes programme aims to refurbish every Council home in Thurrock and aims to maximise energy efficiency and to rid properties of damp and mould (gross spend between 2013/14 and 2015/16 of £55.35m).
- The completion of new council dwellings and community hall at Seabrooke Rise, Grays, with a gross spend of £13.64m over the period 2013/14 to 2015/16.
- The completion of new council dwellings at Derry Avenue, South Ockendon, with a gross spend of £6.11m over the period 2013/14 to 2015/16.
- £5.91m spent on improvements to the highways infrastructure, including the creation of the Lakeside to Tesco bus link road, works to improve safety around schools, works to North Stifford Interchange and improvement works to Oliver Road.
- £3.48m spent on converting the former Grays magistrates' court into 39 business units of varying sizes, for start-up and more established businesses.
- Amalgamation works at Arthur Bugler schools which created a new entrance, staff room and office and connecting corridor between the buildings, with a gross spend of £0.72m over the period 2014/15 to 2015/16.
- £0.52m spent on improvements to the Coalhouse Fort generator house.

4.3 Works in progress - During the year a number of projects commenced which are expected to be completed during the current or next financial year. These projects include:

- Expansion works at Woodside and Thameside Academies
- Relocation of the Pupil Referral Unit
- Expansion works at Riverside Business Centre
- The creation of a new community hub in Aveley
- The replacement of street lighting with LED technology

4.4 Unused resources will be carried forward to meet ongoing obligations and new projects.

5 Issues, Options and Analysis of Options

- 5.1 The outturns are a reporting of fact and so there are no options to consider.
- 5.2 If the mitigating actions being proposed in 2016/17 were not taken this would create a base budget shortfall and add further pressures to 2017/18.

6 Reasons for Recommendation

- 6.1 With regard to the 2016/17 budget pressures, officers are recommending that the mitigating actions to deliver the 2016/17 budget are agreed so as not to have an adverse impact on future years. The Council has demonstrated since 2010 its ability to take these tough decisions and through doing so has consistently reported outturns within budget, as demonstrated earlier in this report.

7 Consultation (including Overview and Scrutiny, if applicable)

- 7.1 If the mitigating actions to balance the 2016/17 budget are agreed, some will require consultation through the relevant Overview and Scrutiny Committee and, where applicable, with service users and stakeholders. Once consultation is complete, Cabinet will be asked to consider the outcome and whether to agree the savings proposal.
- 7.2 Internal consultation with staff on specific proposals, particularly where there is a restructure, will be in line with HR policy and guidelines.

8 Impact on corporate policies, priorities, performance and community impact

- 8.1 Delivering further savings in 2016/17 in addition to those previously agreed is particularly challenging in light of the cumulative impact of such a significant reduction in budget and in the context of growing demand for services. The implementation of savings proposals has already reduced service delivery levels and our ability to meet statutory requirements, impacting on the community and staff.
- 8.2 In relation to Children's Social Care as there are already significant risks in achieving the agreed savings in light of increasing demand. The implementation of these savings will place additional pressure on existing teams who are working to develop an alternative sustainable model of service delivery. Capacity will be reduced and may result in a longer lead in time.
- 8.3 There is a risk that these savings may result in increased demand for more costly interventions if needs escalate. This will need to be closely monitored. The potential impact on the Council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

9 Implications

9.1 Financial

Implications verified by: **Sean Clark**
Director of Finance and IT/s151 Officer

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Austerity measures in place are continually reinforced across the Council.

9.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Law and Governance

There are no direct legal implications arising from this report. This report provides an update and allows members to review the management of existing budgets.

9.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community and Development Officer

There are no specific diversity and equalities implications as part of this report.

9.4 Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)

N/A

10 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers held in Corporate Finance

Report Author:

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