County Council
Cabinet

12 September 2018

2018/19 Revenue Budget Monitoring

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Forward Plan References:	*FP18/07/08; FP18/08/10; FP18/08/11; FP18/08/12; FP18/08/13; FP18/08/14; FP18/08/15; FP18/08/16; FP18/08/17; FP18/08/18; FP18/08/19; FP18/08/20; FP18/08/21; FP18/08/22; FP18/08/23*		
Summary:	The pressures facing all local government are well documented and Somerset County Council is determined to address its financial challenges in a robust yet considered manner. In particular, there is a strong focus to bring 2018/19 expenditure into line with the budget during the remainder of the financial year. This report describes the likely financial outcome for 2018/19 if action were not to be taken, alongside actions to address that outcome. Since May there has been considerable focus by the Cabinet and the Senior Leadership Team on addressing the financial pressures (known as Financial Imperative Programme), culminating in proposals that could save around £13m over the remainder of this financial year and more in 2019/20. If agreed and implemented, these proposals will address the majority, but not all, of this financial year's pressures and lay the foundations for longer-term financial sustainability for the Authority. This would be based on a core service offer that is affordable within funding now available and prioritises services for vulnerable children and adults and those services most valued by residents. Many of the savings proposals will be difficult and painstaking to implement. Bringing financial control to a large, complex and sensitive spending area, like Children's Services, will be		

	challenging. However, both of these challenges must be overcome if the Council is to reinstate financial stability to allow it to deliver sustainable services for the people of Somerset and meet its statutory duties.
Recommendations:	**Cabinet is recommended to:-** 1. Note the challenging financial circumstances of Somerset County Council and understand the impacts of the projected revenue budget outturn overspend position for 2018/19, the current Aged Debt Analysis and the projected delivery of the current MTFP savings. 2. Note and support the significant management actions and development of proposals for change to address the projected financial overspend during the remainder of 2018/19 and beyond. 3. Consider the proposals for change set out in Appendices C2a and C2b and have due regard to any equalities implications identified and risks implications prior to any decisions being taken 4. Agree the proposals for change set out in Appendix C2a and approve their implementation by the relevant Director(s) 5. Approve for consultation the proposals for change set out in Appendix C2b and delegate the implementation of those proposals to officers following due process 6. Note that the Leader of the Council, Cabinet Member for Resources, Chief Executive and Section 151 Officer will oversee and monitor the delivery of the proposals for change and report on progress as part of the budget monitoring reports 7. Delegate authority for the development of any additional alternative proposals for change that may be necessary to the Chief Executive in consultation with the Section 151 Officer and relevant Director(s)
Reasons for Recommendations:	The Council must deliver its services within its available resources and take appropriate action to ensure this is achieved. Robust budget monitoring information is an essential ingredient of a well-run Council, and that information must be used to inform decisions about actions required to address any budget variances. The recommendations also recognise the separate responsibilities for the Leader of the Council, Cabinet and Officers to manage services, approve proposals for change and implement changes within the overall envelope of the agreed budget, Schemes of Delegation and the Council's Financial Regulations.
Links to Priorities and Impact on Service Plans:	The Medium Term Financial Plan (MTFP) sets the funding for the County Vision and the use of those funds is then monitored, via this report, throughout the year to ensure delivery of Council objectives and actions within the resources available.

Consultations and co-production undertaken:	Information and explanations have been sought from directors on individual aspects of this report and their comments are contained in the report and appended proposals. Due process and consultations will be carried out where needed and where indicated in the specific proposals for change.
Financial Implications:	The financial implications are identified throughout the report.
Legal Implications:	It is a statutory requirement under the Local Government Finance Act 1992, as amended by the Localism Act 2011, for the Council to set a balanced revenue budget. The 2018/19 budget was approved by the Council in February 2018 and together with the Capital Investment Programme and Treasury Management Strategy it sets the resource framework and limits within which services must be delivered. Any further legal implications are set out within the specific proposals appended to this report.
HR Implications:	There are implications arising from some of the proposals to address the projected overspend and these are set out in the impact assessments. A formal consultation has been started with staff representatives on the potential loss of more than 100 posts as a result of the savings proposals.
Risk Implications:	In their report to the Audit Committee in July 2018, Grant Thornton, the external auditors, commented that “the council’s financial health has deteriorated over the last 12 months due to continued overspending, predominantly in the area of children and families. This has necessitated further use of already depleted reserves that now means the council has limited capacity to fund any further overspending. The inability of the council to deliver against its budget is now pervasive to the whole council and without urgent actions could result in it running out of money in the next two to three years.” Grant Thornton set out a number of recommendations for action some of which are addressed by and through this report. Progress against these actions will be monitored by the Audit Committee. Grant Thornton concluded that they were “unable to state that Somerset County Council has proper arrangements in place to ensure sustainable resource deployment …” . They then issued an adverse 2017/18 value for money conclusion and stated that they had “considered the need to exercise our wider auditor powers. At this stage, we have decided not to exercise these powers, but will consider the need to issue a ‘statutory recommendation’ under section 24 (Schedule 7) of the Local Audit and Accountability Act, should arrangements at the council not improve and/or further significant overspends emerge during the course of 2018/19.” Therefore, taking swift and decisive

	action as set out in this report is an essential part of the response to the Grant Thornton findings. The availability and use of reserves and the revenue contingency is critical in being able to manage peaks in demand and costs incurred. This report recognises the need for such reserves and contingencies and aims to adopt a reasonable approach to maintaining both. Our corporate risk register recognises the risk to containing our spend within budget; this report details proposals to reduce spending and, if agreed, these will address the cumulative position also. The Children's Services budget is significantly overspent and is on an upward trend. This risk will be mitigated by an improved understanding of the budget, better and more timely monitoring information and improved control of expenditure within the service.
Other Implications (including due regard implications):	It is essential that decision makers ensure that consideration is given to legal obligations, in particular the need to exercise the equality duty under the Equality Act 2010, to have due regard to the impacts based on sufficient evidence appropriately analysed. This however does not prevent the Council from making difficult financial decisions, such as the reductions in service or decisions which may affect one group more than another. What the duty requires is consideration of all available information, including the potential impacts and mitigations to ensure a fully informed decision is made. Equality Impact Assessments (EIAs) have been undertaken for each of the savings proposals, where necessary, and an overarching EIA commentary has been included as a later section in this report. As services take remedial action, including any formal decisions required to address the in-year overspend, then appropriate consideration will need to be given to the legal, HR and equalities issues, as necessary.
Scrutiny comments / recommendation (if any):	This report will be considered by the Scrutiny Committee for Policies and Place on 11th September where all members have been invited to attend and participate. Any specific recommendations or alternative proposals for Cabinet to consider will be reported to the Cabinet meeting on 12th September along with any pertinent comments.

1. Background

1.1. All County Councils are under significant financial pressure and Somerset is no different. According to the National Audit Office, there has been a 49% real-term reduction in government funding for local authorities in the last six years. In Somerset the revenue support grant has fallen from around £90m per year to less than £9m per year in five years. The financial pressure, in part, has led to the external auditor's "adverse" value for money opinion, discussed at the Audit Committee in July 2018. It is essential, as it is for all local authorities, that this Council lives within its financial means.

1.2. Considerable efforts have been made by the Council to live within its means; an estimated £130m of ongoing savings and efficiencies have been delivered over the last eight years, but the trend of reduced funding coupled with increasing demand and costs has continued. Where budgets are predicted to be overspent remedial actions are required to balance the Council's budget as a whole to avoid any draw on the General Fund. Close monitoring of current and projected spend is a key element of maintaining close control.

1.3. Throughout the 2018/19 financial year, the main area of pressure in the Council's budget has been in Children's Services (both in Children and Family Services and Learning and Commissioning – the two main areas of the Service). The demands upon these Services have not reduced since last year and have increased since month 2 of this year, driven in part by increasing numbers of children coming into care and requiring placements. The Service is also finding it challenging to deliver the savings planned for 2018/19 and is reviewing alternatives where needed. Somerset is not unique in experiencing this pressure; in 2017/18 English councils spent over £800m more than they had budgeted for on children's services. There is a concerted effort under way to improve demand management and simultaneously improve outcomes for vulnerable children. More detail of planned and on-going actions is included in section 3.

1.4. To off-set the overspend in Children's Services it is necessary to find savings in all areas of the Council's work. All services are being reviewed for further savings and efficiencies, with affordability, service quality and service improvement all in mind. The resulting savings proposals are set out in section 12 and the appendices of this report; the ability to achieve them in full will be affected by market factors, rising costs and service demand.

2. Summary Forecast 2018/19 – Revenue Budgets

2.1. It is estimated that, without decisive intervention now, there will be a projected overspend of £11.400m at the end of the year (see Appendix A) when compared to the Revenue Budget, with the majority of the overspend being in the Children's Services budgets. Most other service areas of the Council are being controlled within budget although some corporate and support budgets are also under pressure.

2.2. In response to this financial imperative the Cabinet and the Senior Leadership Team have worked closely together to put together a package of proposals to address the projected overspend and therefore to move towards an outturn position within budget. The proposals are set out within and as appendices to this report.

2.3. If the proposals set out in this report are endorsed by members and rigorously followed through by officers, then the overspend at year end is projected to be no more than £2m, with the potential for it to be less if all savings are successfully implemented in the planned timescales.

3. Children's Services

3.1. Children and Families Operations: overspend £11.196m: movement +£1.896m since month 2 (note: in this report, '+' is an adverse movement and '-' is a favourable movement)

3.1.1. The budget for external placements is projecting to spend £19.058m, an overspend of £7.477m and equates to 46% of the service overspend. This is an increase of £0.895m since month 2. The increasing overall number of children coming into care requiring placements is contributing to rising costs, with net increases within fostering and leaving care of 6 and 8 children respectively. Work to reduce the use of high cost unregulated provision is ongoing and whilst the number has increased by 3 since month 2, a 15% reduction in unit costs from £4,916 to £4,062 has been achieved.

3.1.2. The weekly residential placement review panel continues to look at transitions to alternative permanence where appropriate and this has resulted in a saving of £0.634m against the MTFP target of £0.723m. Although we have seen a decrease in the number of residential placements, the unit costs have increased from £4,101 to £4,202. Recruitment of additional Stepping Stones providers is proving more difficult than anticipated leading to £0.225m of savings not being realised and a detailed piece of work is being undertaken looking at 16+ provision in conjunction with our external advisers, PeopleToo. £1.000m of income has been assumed from the Clinical Commissioning Group (CCG) for contributions to residential placements based on the health needs of these children, but discussions around a revised protocol are ongoing and to date no income has been received. The overall projection assumes that all existing placements will continue until the end of the financial year, that the majority of MTFP savings will be achieved and that the service will achieve an additional reduction in residential placements of 4.

3.1.3. The continued reliance on locums is placing pressure on the salaries budget within fieldwork with a projected overspend of £1.602m against a budget of £12.638m. This has remained stable with the service managing within agreed establishment and considerable efforts have been made to recruitment permanent staff. Staffing pressures across other areas of the service, including resources and disabilities, contributes another £1.905m, an increase of £0.305m, due to additional posts being agreed and vacancies being filled in the edge of care service. In addition, the anticipated savings to be realised through service redesign by using technology to work differently, are not being realised as quickly as planned and are adding a further £0.352m of pressure.

3.1.4. Fees and allowances are projected to cost £9.202m, an overspend of £2.733m, with direct payments for disabled children and their families projecting to overspend by a further £0.350m. This represents a reduced forecast overspend on 2017/18 outturn in relation to direct payments which have a key role in supporting families under stress. The majority of the overspend relates to the unfunded Special Guardianship and internal fostering schemes, which represent positive permanence options for looked after children and reduces overall placement costs.

3.1.5. Budgets within the service that provide support to families to prevent children coming into care are projecting a pressure of £0.260m whilst those providing additional support for those already looked after is projecting an overspend of £0.108m, a combined increase of £0.105m. The budget for transporting children to specialist provision is also projecting an overspend of £0.213m.

3.1.6. Accommodation and staffing costs supporting Unaccompanied Asylum-Seeking Children (UASC) are projecting to overspend by £0.794m with a further £0.052m overspend within translation. This is an increase of £0.323m due to additional, unexpected placements. These placements now all go through the Placements Team to ensure that there is coordinated oversight of all placements to secure best value.

3.1.7. MTFP savings in relation to Business Support are currently only assumed to be achievable in part, with a pressure of £0.274m remaining in addition to the existing pressure of £0.340m in this area, an increase of £0.253m. Further work is being undertaken to review the Business Support functions across the service and identify further savings, but this is unlikely to be realised in-year.

3.1.8. A one-off allocation of £5m from the contingency was agreed by Cabinet at month 2 to be transferred to the Children's and Families budget, moving it from £46m to £51m.

3.2. Children and Learning Central Commissioning: overspend £5.795m: movement (-) £0.114m

3.2.1. The transport budgets for Home to School and Special Educational Needs (SEN) transport are projecting to spend £13.667m against a budget of £9.382m. Home to School transport is reporting a pressure of

£3.014m, primarily due to non-delivery of MTFP savings of £1.458m along with the impact of additional calendar days at a cost of £0.266m. The retendering of contracts in September 2017 and April 2018 has led to a combined pressure of £0.982m and contractual inflation of 7.3% for some contracts has resulted in a pressure of £0.303m that could not be absorbed within the budget.

3.2.2. The SEN transport overspend is projected at £1.272m against a budget of £3.279m. The projected position is due to contractual inflation of £0.137m, additional calendar days of £0.143m and £0.992m resulting from increasing SEN placements. Management actions are being taken to manage the pressures of increasing demand and market volatility and further work is being undertaken to look at the savings that can be achieved, although these are unlikely to have an impact in the current year.

3.2.3. A number of additional posts are regarded as important to the service, either for business as usual or for improvement, and have been allowed to be appointed outside the directorate's budget constraints. This total stands at £0.975m, a reduction of £0.038m on the previous monitoring report.

3.2.4. Plans to date are in place to achieve £0.409m of the Management MTFP saving of £0.810m and options against the remaining £0.401m (previously £0.560m) are being considered.

3.2.5. Prior year MTFP savings of £0.900m relating to services commissioned within Support Services for Education have only been partially achieved, with £0.677m remaining as a budget pressure.

3.2.6. The current forecast underspend against the Troubled Families Grant is £0.667m, an increase of £0.202m, due to an increased payment by results assumption of £0.420m, plus one-off vacancy savings and building cost and service delivery reductions within getset, which principally delivers our early help offer.

4. Adult Services including Learning Disabilities

4.1. Adults and Health Operations: underspend £1.700: movement (-) £0.660m

4.1.1. The forecast position for the year across all Adults services is an underspend of £1.700m. This is a reduction in spend from month 3 of £0.332m against a gross spend of £218.702m (0.15%).

4.1.2. In terms of the overall position, there is a pressure of £3.748m against the Learning Disabilities Purchasing budget which is offset by underspends in Adult Social Care (£4.649m), Mental Health (£0.048m) and Commissioning (£0.751m).

4.1.3. The small change in variation between month 3 and month 4 is spread across the services with an increase against Mental Health (£0.248m) being offset by decreases against Adult Social Care (£0.421m), Learning Disabilities Purchased (£0.149m) and Commissioning (£0.010m).

4.1.4. The movement against the Mental Health budget is mainly as a result of 3 new placements unexpectedly being moved into Somerset County Council's funding from Somerset Partnership's Out of Area Treatment's service (OATS) following consultation with the service through the normal panel process.

4.1.5. The increased underspend within Adult Social Care is as a result of a reduction in the number of nursing placements, and increased usage of specialised dementia care block beds. There was a net reduction of 15 nursing placements when comparing June and July, which represents 1.6% of the 910 total nursing beds purchased and reduced the forecast by £0.255m. Increased usage of the dementia care block beds does not increase costs to the authority but does generate additional income from those now occupying the beds. This has further improved the reported position.

4.1.6. Additional savings identified from reviewing all Learning Disabilities placements have led to a reduction of £0.201m. This reduction is shared 75%/25% between SCC and Somerset Clinical Commissioning Group as per the pooled budget agreement. The overall position against the Learning Disabilities pooled budget assumes that the Clinical Commissioning Group will contribute a further £1.249m this year as agreed.

4.1.7. As reported previously there remains many vacancies within the operational teams which creates an underspend of £1m. There are currently 45 vacant posts within these teams and the forecast assumes the majority of them will be appointed to during this financial year. This would give a balanced position against staffing in future years to enable the service to deal with predicted demand.

4.1.8. The planned overspend against the Discovery contract is forecast to be £4.414m following a change to the spend profile for 2018/19 against Registered Care, Supported Living and Day Services. This figure is less than reported in the previous Cabinet report and will be offset by balances elsewhere in the service, hence spend will be balanced to the budget available. The conversion of 3 registered care homes to Supported Living establishments has been completed since the last report.

4.1.9. We estimate that £0.140m will need to be drawn down from corporate reserves to pay for the Local Assistance Scheme programme costs.

5. Public Health: underspend £0.100m: movement (-) £0.100m

5.1. The Public Health budget is made up of two elements. The ring fenced Public Health Grant (£20.723m), which is projected to be fully spent, and £1.098m of Somerset County Council funding. This element is projected to be underspent by £0.100m and will be utilised in year to support related activity in other service areas.

6. Economic and Community Infrastructure Services (ECI): underspend £0.066m: movement (-) £0.081m

6.1. ECI Services are forecasting an underspend of £0.066m, which is 0.1% of the net budget. This is a slight improvement on the previous position that was reported to Cabinet, which was an overspend of £0.015m.

Whilst this figure is very close to budget, there are a number of variances in individual service budget lines that make up this figure.

6.2. Waste is forecasting an underspend of £0.534m. Approximately £0.300m of this figure relates to one-off accruals for March last year. To meet the accelerated statutory closing deadline, the amount of waste for March was estimated. Whilst the figure for March was estimated below the normal levels, because of the heavy snow, the drop in tonnages was even more significant, dropping to 18,000 tonnes when compared to the normal 21,000 tonnes. The other forecast savings are based on the tonnages in the first quarter of the year, although volumes continue to be volatile and dependent on outside factors such as the weather.

6.3. Transporting Somerset is forecasting an underspend of £0.099m. Inflationary pressures in the local transport market are well known, but the Concessionary Fares position is currently better than originally forecast by £0.185m, and the service has also achieved some costs savings with minor route reorganisations.

6.4. Traffic Management is forecasting an underspend of £0.058m. This follows a review of staffing charges to capital, where the amount that is permissible is slightly higher than previously budgeted.

6.5. The Somerset Rivers Authority is funded by an additional 1.25% special precept and is expecting claims of £3.565m from Delivery partners in the financial year, against an in-year funding of £2.507m. This is a planned position and the difference will be met from a drawdown from the earmarked reserve that has been built up in from previous years' income of £1.058m.

6.6. Libraries is forecasting an overspend of £0.354m, which in part is due to the additional service redesign work this year and due to a stock write off issue where no provision has been made. It is anticipated that the service redesign work will be funded by capital receipts flexibilities due to the transformational nature of this project.

6.7. Highways is forecasting an overspend of £0.203m. This comprises a number of pressures in the service including staff costs, insurance charges and contractual requirements. The service is looking at several mitigating actions to address this overspend, such as holding vacancies, reviewing whether additional time charges to capital are appropriate and validating commuted sums income.

6.8. Economic Development is showing an adverse variance of £0.201m, which is due to the Somerset share of the revenue costs of running the Connecting Devon and Somerset programme. It is assumed that this cost will be met from capital receipts flexibility and therefore would off-set the pressure to enable a balanced position.

6.9. Use of Capital Receipts Flexibility

Capital receipts flexibility is referred to several times in this report. As a reminder, this is the permission that Government has granted, by regulation and on a time-limited basis, to apply capital receipts income to transformational activity that would otherwise fall to be funded from the revenue budget. The use of capital receipts has otherwise normally been constrained to funding capital expenditure only.

- The overall ECI position assumes that capital receipts flexibilities will be used for the following transformational activities totalling £0.490m:-
- Economic Development - £0.201m for project management, grant management and technical assurance for the Connecting Devon and Somerset Broadband project.
- Libraries - £0.200m for costs of transformational work.
- Leisure - £0.059m for the work to close the current contract and, where possible, to pass the assets to another provider.
- Registration - £0.030 to make the service more accessible electronically and to reduce administrative activity in the future.

7. Corporate and Support Services: overspend £1.218m: movement (-) £0.716m

7.1. Customers & Communities underspend £0.419m: movement (-) £0.107m

Customers and Communities are forecasting an underspend of £0.419m, of which £0.265m has been delivered from a restructure of the service to enable it to operate more efficiently. Consultations are currently taking place proposing savings arising from the Technology and People (TAP) Programme, the removal of the unallocated Community Development Fund, and a reduction in opening hours for the Contact Centre. Further savings are expected to be described in the Month 5 monitoring report and are therefore not contained within the proposals for change. It is proposed to use capital receipts flexibility to fund part (£0.154m) of this improvement work.

7.2. Democratic Services underspend £0.024m: movement (-) £0.000m

Democratic Services is showing a gross underspend of £0.229m, although this includes a budgeted contribution of £0.205m to the Elections reserve. This is transferred annually to an earmarked reserve to build up funds for the quadrennial elections.

7.3. Commercial & Procurement underspend £0.008m: movement (-) £0.103m

Commercial and Procurement is currently showing an underspend of £1.072m. This includes the Building Schools for the Future (BSF) budget, where it is planned that £1.064m will be transferred to the BSF equalisation fund at year end, to build up funds to meet these costs in the future.

7.4. Business Support underspend £0.137m: movement (-) £0.137m

Corporate Business Support is showing an underspend of £0.137m, which is the removal of the Director's post from the Senior Leadership Team structure and a small number of vacancies that are being held in order to reduce the overhead of such services on the Council's budget.

7.5. HR & OD: underspend £0.273m: movement (-) £0.000m.

Human Resources and Organisational Development is showing an underspend of £0.273m. This has been achieved by removing 3 posts from the establishment, including the Organisational Development manager and the IT training post (£0.123m), reducing the spend on Pathway to Employment (£0.050m) and reducing the corporate Learning & Development budget (£0.100m). Restructuring and realignment of duties to other teams in the HR and OD area have mitigated the full impact of these reductions.

7.6. Cross Cutting Procurement Savings: overspend £1.116m: movement (+) £0.990m

In the previous MTFP, a thematic saving was proposed to make crosscutting savings through improved procurement processes. The figure of £1.116m represents the value of these procurement savings that have yet to be developed and delivered to be able to reduce service budgets. There are robust plans in place to deliver procurement savings targets in 2019/20, but it is clear some service proposals will not be met in 2018/19.

7.7. Legal Services: overspend £0.375m: movement (+) £0.097m

Legal Services is showing a forecast overspend of £0.375m. This is in part the result of an unachieved MTFP proposal to reduce the amount of legal work that was being outsourced (£0.298k). This has not proved possible due to the continued caseload being presented to Legal Services, the difficulty of attracting and sustaining suitable legal staff into the service, and the continued competitive market for external advice. The remaining overspend (£0.077m) is caused by pressures within the Coroners services around staffing, pathology and mortuary costs.

7.8. Finance: overspend £0.105m: movement (+) £0.158m

The Finance service is showing a net overspend of £0.105m, which is due to the appointment of an interim Finance Director and the associated recruitment costs for the permanent replacement.

7.9. Business Change: On-budget; movement (-) £0.000m

Business Change is showing an adverse variance of £1.229m. As in previous years, this is a planned position within the MTFP, with this balance to be met from the capital receipts flexibility.

7.10. ICT: overspend £0.390m: movement (-) £0.410m

The ICT budget has an adverse variation of £1.690m, however £1.300m of this is planned to be met from capital receipts flexibility. The ICT revenue budget has come under pressure because it has had to absorb licensing costs that were previously funded from the capital budget (c£1.500m), staffing pressures and a high number of demands from services for work. The service has restructured its staffing and reduced its establishment, charged staff to capital projects and sought to delay some projects. There are robust plans in place to reduce the ICT overspend position to within the base budget by the end of this financial year. There is currently provision within the forward MTFP approved last February to address the ICT base budget position from 2019/2020.

7.11. Property: overspend £0.048m: movement (+) £0.232m

The Property budget is showing a net adverse variance of £0.254m, which is caused by end of contract costs for the now-closed BMIS schools scheme (£0.063m), pressure on the non-schools Repairs and Maintenance budget (£0.110m), and from a net reduced rent and increased costs on a large number of properties across the Council's estate. This has been offset by some one-off additional income from the County Farms estate and from other properties. £0.206m of activity to transform the service has been identified and will be funded from capital receipts flexibility

7.12. Use of Capital Receipts Flexibility in Corporate and Support Services

Corporate and Support Services are planning to set £2.889m against the flexible use of capital receipts to fund the following projects:

- ICT £1.300m for a number of projects to upgrade our systems and networks, to improve efficiency and to support the Technology and People Programme .

- Business Change £1.229m for their on-going work to support a number of transformational projects across the authority as part of the Core Council Programme.

- Property £0.206m for a number of development projects across the County Council's estate, including the A Block project.

- Customers & Communities £0.154m for a number of transformational roles within the Service.

8. Non-Service Items: underspend £3.441: movement (-) £0.870m

8.1. Contingencies: On-budget; movement (+) £2.481m

A contingency draw-down of £5.000m was approved in the month 2 budget monitoring report to offset funding pressures within Children & Families – Operations. With the remaining contingency of £2.481m likely to be required to offset funding pressures within the Authority during the year, we are reporting the contingency budget as being fully committed. The contingency budget was set at £7.481m and was reported as being uncommitted in month 2, hence the movement.

8.2. Investment Income: underspend £0.300m: movement (-) £0.300m

A better than anticipated return on our investments during the first quarter, coupled with an increase to the base rate has resulted in an estimated increase of £0.300m in our investment income.

8.3. Special Grants: underspend £3.052m: movement (-) £3.052m

Additional non-specific grants are now known to be received. The main additional grant was the Business Rates Retention Grant (£3.014m) that was not originally budgeted for.

9. Trading Units

Trading Units have a net nil budget. Any underspend is described as a surplus and any overspend as a deficit on the trading account.

9.1. Support Services for Education: surplus £0.005m: a movement of (-) £0.005m

Minor variances make up the movement of £0.005m.

9.2. Dillington House: deficit £0.171m: a movement of (+) £0.171m

Dillington are expecting to break-even by the end of the year, with the exception of the internal capital loan repayment of £0.171m. This is in line with the agreed business case.

10. Delivery Progress of 2018/19 MTFP Proposals

10.1. In February 2018, the Council approved £13.418m of savings proposals and £13.018m of pressures. This section of the report provides an update of the progress towards delivery of the proposals with a Red-Amber-Green (RAG) status showing the level of risk around delivery (Appendix B).

10.2. Savings

As all savings were taken from service budgets at the start of the financial year, the real risk is that service areas will not deliver the full saving and subsequently overspend against the budget. At this time of year savings are assessed as either delivered or no longer deliverable, with only a very few having the “amber” status, flagging them for attention to move them towards green. All of this information is contained in the figures in previous sections and is not additional to them.

Over 79% of the savings have been classified as having a green status, meaning service directors are confident that these savings will be delivered at the financial impact predicted in the original proposals. This is an improved position compared to previous years.

This leaves just under 21% of savings (£2.782m) that are no longer deliverable in 2018/19, or are at risk, and will require off-setting savings to avoid an overspend.

11. Addressing the Financial Challenge 2018/19

11.1. As is highlighted in this report, without prompt and effective action the 2018/19 revenue budget will be overspent by an estimated £11.4m. This section of the report sets out proposals for that "prompt and effective action" that will reduce the level of overspend to an estimated £2m or less.

11.2. Attached to the report at Appendix C1 is a schedule of proposed savings followed by detailed proposals for change at Appendix C2. A considerable amount of detail of the proposals is contained within the appendices so that members and officers can make well-informed decisions about the proposals. The schedule of proposals can be summarised as:

Maximum Potential

	2018/19 (£m)	2019/20 (£m)	Total (£m)
Adults	3.828	1.915	5.743
Children's Services	2.134	3.224	5.358
Corporate	2.990	-1.567	1.423
ECI	3.823	-0.734	3.089
	12.775	2.838	15.613

11.3. It is acknowledged that some of the plans for savings and some of the amounts estimated, have a lot of assumptions and dependencies in order to achieve them in full in the desired timeframe and are therefore necessarily imprecise at this time. Hence, senior managers have applied confidence factors to each proposal and these are shown on each proposal for change document. Using these confidence factors produces the following "pragmatic" numbers:

Pragmatic Projection

	2018/19 (£m)	2019/20 (£m)	Total (£m)
Adults	3.722	1.635	5.357
Children's Services	1.450	2.339	3.789
Corporate	2.789	-1.688	1.101
ECI	2.682	-0.606	2.076
	10.643	1.680	12.323

11.4. In 2018/19 alone, there is a gap between the maximum potential and pragmatic projection of £2.132m, which suggests that a contingency of this size should be set aside to allow for non-delivery of some (and/or elements of some) savings. Earlier in this report it is indicated that £2.4m of the main revenue contingency has been reinstated. This could be considered as a major part of the indicative contingency for unachieved savings. It is also proposed to avoid making a £1m contribution to a capital fund, for which there is no identified application in 2018/19. Releasing this would produce an overall available contingency of £3.4m.

11.5. It should also be noted that one of the proposed savings – application of Better Care Fund within Adults Services - has already been applied as a technical adjustment in the monitoring report; this reduces the maximum potential savings by £3.4m to £9.375m compared to the residual £11.4m projected overspend. Also, some of the savings do not have decisions to be made by the Cabinet as relevant decisions are anticipated by other bodies; e.g. partnership boards. Hence the sum total of proposals in the appendices will vary from the sum totals in the tables above.

11.6. It is intended that as confidence in the delivery of the savings builds, then it will be possible to reduce the contingency hence bridging the £2.0m gap. This requires strict monitoring of the savings delivery so that there is early warning of any likely non-delivery to enable remedial action to be taken.

11.7. Another key ingredient of addressing the financial challenge is gripping the Children's Services budget. At present the total overspend is projected to be in the region of £17m (after allowing for the £5m transfer from the contingency) and, of particular concern, the overspend has increased since month 2. This overspend must first be controlled and then reduced in order to support the financial recovery of the Council.

Considerable effort is currently being committed to seek to re-state the Children's Services budget for 2018/19. With external support, funded by the Local Government Association, a thorough analysis of the cost drivers of the budget is underway, which will provide a much better understanding of how to influence spend in more effective manner.

The finance and service professionals are working together to build their understanding to enable a more robust budget to be established. In addition, work will be undertaken to develop more prompt (ideally weekly) monitoring information on the key cost areas, e.g. placements, so that the reaction to spending varying from budget can be more swift than is supported by the current monthly reporting regime. The Children's Services Directorate Management Team is also developing a number of interventions that may alter the way in which cases are dealt with, to the benefit of children and the budget.

11.8. **The Impact of Failure to Act or to Control**

It is accepted that many of the savings proposals will be difficult and painstaking to implement. Bringing financial control to a large, complex and sensitive spending area, like Children's Services, will be challenging. However, both of these challenges must be overcome if the Council is to reinstate financial stability to allow it to deliver sustainable services for the people of Somerset.

If action is not taken, or is taken and fails, then a revenue budget overspend will follow. As it is an essential requirement of local government finance that there must be a balance of income and expenditure within each financial year then the Council would have to look to its reserves in order to balance the books.

While the annual accounts for 2017/18 showed that there is £20.929m in the General Fund, when this is adjusted for the negative sums currently set against the list of earmarked reserves and for sums that are being held for specific purposes and for other bodies, then the sum predicted to be available at the end of March 2019 is £7.8m, which includes the planned contribution to reserves of £2.0m. This, however, compares to the minimum recommended sum for Somerset County Council of about £15.0m. Hence, the General Fund is not of adequate size to support a significant overspend. Indeed, it is only acceptable to leave it at this reduced amount for a short time and because there is revenue provision for replenishing the General Fund in future years. It should be noted, however, that some of the risk is mitigated by the remaining revenue budget contingency of £3.4m in the budget for 2018/19.

11.9. Impact on 2019/20 and Beyond – the Medium Term Financial Plan (MTFP)

Due to the timing of the consideration of these proposals, it will only be possible for them to have a part year effect in 2018/19. Indeed, for those where there is a long consultation and/or implementation period, there will only be a limited financial impact in the current year. However, the financial challenges facing Somerset County Council continue into 2019/20 and beyond. Therefore, proposals agreed now and with an ongoing impact will reduce spend in future years, potentially offering a full year effect for 2019/20.

It is estimated that the additional impact in 2019/20 of the maximum 2018/19 savings of £12.775m will be £2.838m, making the total, maximum impact £15.613m on an ongoing basis. Note that there are some negative figures in the 2019/20 column, produced by reversing out large savings that are only available on a one-off basis in 2018/19.

This report focuses on the 2018/19 budget and the actions to address the projected overspend. During September an increased focus will turn to the development of the MTFP. A priority will be to revise the current MTFP in light of further information that it is now known so that updated gaps between funding and estimated spending requirements for each year can be understood and discussed. Subsequent to that, actions will need to be developed in order to address any gaps and to present proposals to the Cabinet and Council for consideration in February 2019. Where it is appropriate and necessary to secure a full year effect of a saving from 1 April 2019, then there may be earlier requests for decisions in, say, December 2018.

It is planned to present a report on the medium term financial gaps to the Cabinet at their meeting in October along with a plan to develop actions to address the gaps over the subsequent months.

11.10. Capital and Capital Receipts Flexibilities

Since 2016 the Government has allowed local authorities to use capital receipts to fund transformation projects and consequences that would otherwise have counted against revenue funding. Somerset County Council is intending to use this flexibility and details are set out elsewhere in this report. It is anticipated that approximately £10m of expenditure will qualify as transformational against capital receipts funding. It is expected that there will be enough receipts available to support this level of expenditure; this is being closely monitored.

During the autumn months, in preparation for the 2019/20 budget and MTFP, further work will be undertaken in regard of ongoing commitments against capital receipts so that the Council can agree an appropriate strategy at the time of agreeing the forward year's budget.

11.11. The capital programme must be considered alongside the revenue budget: they both support the delivery of the Council's objectives and the consequences of borrowing for capital expenditure are a factor in the revenue budget. Currently the Council has an ambitious capital programme, particularly in regard of schools' basic need, which is funded by over £100m of borrowing. Given that this level of borrowing will create a large and irreducible commitment against revenue, it must be reviewed in the context of a strained MTFP. While the requirement for school places will not go away, they may have to be funded from alternative sources or over a longer period. Further work on this will be undertaken over the autumn.

12. Aged Debt Analysis

12.1. As at the end of July 2018, the outstanding debts over 90 days old totalled £2.188m or 33.56% of gross debt outstanding. This is above the target set for reporting performance on the Performance Wheel of no more than 15% of total debt. By way of comparison, the percentage of debt over 90 days old in July 2017 was 47.31%. The aged debt profile is not at an acceptable level and there is active pursuit of this debt ongoing so that our usually excellent record of collecting over 99% of debt, achieved over the last 3 financial years, is maintained.

12.2. Services' total outstanding debt relating to external income on the Accounts Receivable system stood at £6.520m on 31 July 2018, (July 2017 £7.075m). This sum is already credited as income in the relevant accounting codes.

12.3.

Service	Not o'due	0-30 Days	1-3 Mths	3-12 Mths	12+ Mths	Total
	£m	£m	£m	£m	£m	£m
Adults and Health - Commissioning	0.000	0.051	0.000	0.030	0.004	0.085
Adults and Health - Operations	0.083	0.738	0.353	0.805	0.150	2.129
Business Development	0.018	0.336	0.655	0.007	0.044	1.060
Customers & Communities	0.000	0.001	0.000	0.000	0.000	0.001
Children & Family - Operations	0.005	0.006	0.039	0.005	0.008	0.063
ECI - Commissioning	0.002	0.000	0.004	0.006	0.002	0.014
ECI - Operations	0.204	0.510	0.177	0.886	0.102	1.879
School & Early Years	0.029	0.055	0.001	0.008	0.009	0.102
Finance & Performance	0.004	0.159	0.011	0.072	0.004	0.250
Children & Learning - Commissioning	0.077	0.149	0.017	0.001	0.003	0.247
LD Operations	0.010	0.000	0.000	0.011	0.023	0.044
Support Servicea for Education	0.007	0.349	0.084	0.008	0.000	0.448
Public Health	0.000	0.126	0.072	0.000	0.000	0.198
Total (£m)	**0.439**	**2.480**	**1.413**	**1.839**	**0.349**	**6.520**
Total (%)	**6.73%**	**38.04%**	**21.67%**	**28.21%**	**5.35%**	**100.00%**

12.4. Aged Debt – Service Commentary

12.4.1. Adults and Health: £2.214m

Debt continues to be a main focus for the team however vacancies over the past couple of months have meant that not as much progress has been made as would normally be expected.

55% of the total outstanding debt is less than 3 months old and the majority of this relates to invoices raised to health partners and other government agencies (CCG, Other Local Authorities) for which we expect full payment. There has been an increase in debts that are aged between 3 months and 1 year, and this will be a focus for the next month.

Debts over 1 year old continue to be at their lowest level for a number of years with a further reduction since outturn of £0.086m. The current value of these is £0.176m and all are either with legal or awaiting external intervention.

12.4.2. Children and Learning: £0.860m

The majority of debt (79%) is under 30 days old and relates to invoices raised to schools for services provided by Support Services for Education and contributions from parents/carers for school transport for academic year 18-19.

Of the debts over 30 days, 50% is similarly due to invoices raised to schools but the majority have since been settled. There are also a number of older debts in relation to the recoupment of interagency fees from other local authorities and some parental contributions for children in care. All debts are being actively pursued, and the necessary debt recovery actions taken

12.4.3. Corporate and Support Services: £1.310m

The total value of debts over 90 days is £0.127m.

The larger debts within this figure are comprised of 3 property related debts from tenants and academies (totalling £0.040m) and some contributions from other local authorities and partners (£0.051m) which are under discussion and should be collected shortly.

Some of the other debts within this figure have recently been paid.

12.4.4. Economic and Community Infrastructure: £1.893m

ECI are reporting a total of £0.997m outstanding debt over 90 days old. Whilst this is higher than in previous reports, the majority of this figure comprises invoices to 2 developers totalling £0.656m, which are being actively pursued by the services.

The remainder comprise a single transport debt (£0.093m) where payment is expected shortly, and the usual large number of smaller debts, such as for utilities under the New Roads and Street Works Act (NRSWA) totalling £0.153m, and County Ticket debts from individuals (£0.036m). The overwhelming majority of these are already being pursued by the Legal Debt Recovery team.

12.4.5. Public Health: £0.198m

The debt for Public Health is less than 90 days old and not considered to be at risk of non-recovery.

13. Consultations Undertaken

13.1. The individual service content within this report has been considered by Service Management Teams prior to submission together with on-going briefings of Cabinet Lead Members.

13.2. Consultation with staff representatives has commenced in regard of those proposals with staffing impacts.

13.3. Bearing in mind that this report contains proposals for consideration at this meeting, limited discussions have also commenced with other parties affected by these proposals; for example, public sector partners, commercial partners, voluntary sector, etc.

14. Financial, Legal, HR and Risk Implications

14.1. Financial implications are dealt with in the body of this report, and where decisions are required within individual proposals.

14.2. The legal implications of the proposals are indicated individually within the proposals for change (Appendix C), as are the HR implications.

14.3. There are individual Equality Impact Assessments (EIAs) of the proposals in Appendix C and an overall assessment has been compiled, which is shown in Appendix D. Based on the proposals put forward within this report there are a number of impacts, which, when looked at together, could have combined impacts on characteristics protected under the Equality Act 2010. They are:

- A high proportion of the impacts identified will affect **young people**. This could be through the reduction or removal of support and recreational services, the support provided to Young Carers. This could then have an additional impact on the person cared for.
- **Women** are also more likely to be impacted by a combination of proposals. As women are still more likely to provide a child or adult caring role they could be disproportionately affected by the changes to support services for disabled people and young people. Where women are in single parent households the reduction in support to Advice Services could result in more pressure on these homes.
- The reduction proposed through Adults Services addresses under usage of current contracts. This could have an impact on **disabled people,** but this would be about when the service can be accessed rather than the service not being available. Again, a reduction in Advice Services could place additional pressure on these households.
- Reductions in the support provided to Citizens Advice, Local Assistance Scheme and Youth Services could remove avenues of support for people living on **low incomes**.

There are some mitigations identified within the individual proposals to minimise the impacts identified. This include

- working with the voluntary and community sector to provide some of the support services we currently provide
- providing sign posting and advice on alternative areas of support and services
- identifying alternative funding to retain the current level of service delivery

15. Background papers

15.1. County Council – 21 Feb 2018 – 2018/19 Revenue Budget and MTFP
County Council – 21 Feb 2018 – S151 Robustness and Adequacy report
Cabinet – 9 July 2018 – Revenue Budget Monitoring 2018/19 Month 2

Note:
For sight of individual background papers please contact the report author(s):

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Appendix A – Revenue Budget Monitoring – Headline Summary Table

Service	Original Base Budget	Budget Movements	Total Budget Approvals	Negative (+) Variances	Positive (-) Variances	Planned Use of Earmarked Reserves	Planned Use of Capital Receipts Flexibility	Net Variance Under (-) / Overspend		Previous Cabinet Report *	Movement from Previous Report
	£m	£m	£m	£m	£m	£m	£m	£m	%	£m	£m
Adults and Health - Operations	141.283	-0.079	141.204	6.305	-5.448	0.000	-2.557	**-1.700**	-1.20%	-1.040	-0.660
Children and Families - Operations	46.279	4.943	51.222	11.405	-0.159	0.000	-0.050	**11.196**	21.86%	* 9.300	1.896
Children and Learning - Commissioning	19.750	0.366	20.116	6.594	-0.674	0.000	-0.125	**5.795**	28.81%	5.909	-0.114
Public Health	1.026	-0.003	1.023	0.000	-0.100	0.000	0.000	**-0.100**	-9.78%	0.000	-0.100
ECI Services	62.774	0.178	62.952	2.272	-0.714	-1.134	-0.490	**-0.066**	-0.10%	0.015	-0.081
Key Services Spending	**271.112**	**5.405**	**276.517**	**26.576**	**-7.095**	**-1.134**	**-3.222**	**15.125**	**5.47%**	**14.184**	**0.941**
Corporate and Support Services	24.078	0.914	24.992	5.036	-2.246	1.317	-2.889	**1.218**	4.87%	0.502	0.716
Non-Service Items (Inc Debt Charges)	22.692	-6.319	16.373	0.009	-3.450	0.000	0.000	**-3.441**	-21.02%	* -2.571	-0.870
Trading Units	0.000	0.000	0.000	0.457	-0.291	-0.166	0.000	**0.000**	0.00%	0.000	0.000
Support Services and Corporate Spending	**46.770**	**-5.405**	**41.365**	**5.502**	**-5.987**	**1.151**	**-2.889**	**-2.223**	**-0.161**	**-2.069**	**-0.154**
Updated Business Rates Receipts	0.000	0.000	0.000	0.000	-1.502	0.000	0.000	**-1.502**	0.00	0.000	-1.502
SCC Total Spending	**317.882**	**0.000**	**317.882**	**32.078**	**-14.584**	**0.017**	**-6.111**	**11.400**	**-0.107**	**12.115**	**-0.715**

* The previous cabinet report figures have been restated to include the contingencies request approved in month 2

Appendix B: Savings Month 4 (2018/19)

Service	Value of Approved Saving	Red	Amber	Green
Adults and Health - Operations	3,206,000			3,206,000
Learning Disabilities - Operations	-			
Adults and Health - Commissioning	20,000			20,000
Public Health	107,000			107,000
Adults and Health	**3,333,000**	**0**	**0**	**3,333,000**
Children and Families - Operations	1,705,400	840,000		865,400
Children and Learning - Commissioning Central	1,443,000	1,034,000		409,000
Children's	**3,148,400**	**1,874,000**	**0**	**1,274,400**
ECI Other Services	1,307,500			1,307,500
Economic and Community Infrastructure	**1,307,500**	**0**	**0**	**1,307,500**
Key Service Spending	**7,788,900**	**1,874,000**	**-**	**5,914,900**
Corporate and Support Services	4,128,800	908,300	18,800	3,201,700
Corporate and Support Services	**4,128,800**	**908,300**	**18,800**	**3,201,700**
Total Services	**11,917,700**	**2,782,300**	**18,800**	**9,116,600**
Non-Service	1,500,000			1,500,000
Total Non-Service	**1,500,000**	**-**	**-**	**1,500,000**
TOTAL	**13,417,700**	**2,782,300**	**18,800**	**10,616,600**
Percentage		**21%**	**0.14%**	**79%**

* The non-delivery of these savings has been taken into account in the forward budget process