Hackney

2016/17 OVERALL FINANCIAL POSITION, PROPERTY DISPOSALS AND ACQUISITIONS REPORT (AUGUST 2016)

KEY DECISION NO. FCR 78

CABINET MEETING DATE 2016/17	CLASSIFICATION:
31 October 2016	Open If exempt, the reason will be listed in the main body of this report.

WARD(S) AFFECTED

All Wards

CABINET MEMBER

Cllr Taylor

Finance and Corporate Services

KEY DECISION

Yes

REASON

Spending or Savings

GROUP DIRECTOR

Ian Williams Finance and Corporate Resources

1. CABINET MEMBER'S INTRODUCTION

1.1 This is the third OFP report for 2016/17 and on the basis of detailed August monitoring data from directorates, we are forecasting an overspend of £2,682k at year end. This is a £767k improvement on the July position and I look forward to a continuing reduction in the overspend throughout the remainder of 2016/17 in line with what happened in 2015/16. Given the extremely challenging financial position we are in this year and will be in future years, it is essential that reported overspends in any service are quickly addressed and mitigated.

1.2 There are two points worthy of special note. First, Independent Fostering costs double what in-house fostering costs; anything that can be done by other parts of the Council to reverse the decline in the number of our wonderful in-house foster families will significantly benefit not just our looked-after children but the Council's finances.

1.3 Second, it will be noted that a highly unusual use of directorate contingencies is proposed to cover two unforeseeable, one-off expenses: the high number of electoral exercises this year, and the failure of the screed at the lido. Further use of contingencies will continue to be a noteworthy event, and one which we must try our best to avoid.

1.4 I commend this report to Cabinet

2. GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES INTRODUCTION

2.1 The OFP shows that the Council is forecast to have a £2,682k overspend which is equivalent to 0.3% of the total gross budget.

2.2 This report is seeking Cabinet approval to potentially use some of the provision within the annual revenue budget in respect of corporate contingencies subject to a final review and decision I will make at year end. This provision is included in order to provide capacity to deal with one-off occurrences and eventualities. In the past we have been able to deal with such issues wholly from reserve funding or overall underspends but it is anticipated that this will be unlikely given the current forecast as set out in this report.

2.3 In March 2016, the London Fields Lido management reported several cracks appearing in the tiles along the pool length and specialist consultants / contractors were commissioned by them to undertake an investigation.in to the condition and integrity of the screed / render that they were attached to. The investigation identified major problems with the screed / render in all areas of the pool (including the pool floor) that had already contributed to the failure of the tiles on the pool walls and would most probably lead to further tile failures throughout the pool in the future. In the interim, temporary wall barriers have been installed along the worst affected wall areas to provide protection to bathers, and stabilisation to the wall in the short-term, and to allow LFL to operate safely throughout the summer period.

From the information gathered throughout the investigative works, it was recommended that a full screed, render and tile replacement is required urgently. The remedial works will require the full closure of LFL for 18 weeks, have an estimated total cost of £600,000 (including provision for a loss of income claim from GLL) and need to take place prior to the winter weather period as screed works will be extremely difficult to complete at this time of year. It is proposed that the estimated total cost will be met from Corporate Contingencies subject to a review and decision that I will make at year end.

2.4 In 2016/17, we have had to hold more local elections than could have been anticipated and it is proposed that the additional funding required - £282k – will be met from Corporate Contingencies subject to a review and decision that I will make at year end.

2.5 At the end of September, the Government published the “new” rateable values of each property that pays business rates, following the 2017 revaluation. The new values will take effect from April 2017 and were compiled by the Valuation Office. The underlying value of properties is re-assessed or re-valued to determine their "rateable value". That figure broadly represents the yearly rent - the rentable value - for which the property could be let. The rateable value is then combined with the "multiplier" - a figure set by the government each year - to determine the final bill. Revaluations are carried out to maintain the accuracy in the rating system by reflecting changes in the property market since the last revaluation. Revaluation does not raise extra revenue for the Exchequer. This is because the government will reduce the multiplier to offset the overall change in rateable value. It will though have impact on individual ratepayers who will see their bills rise or fall. Revaluations should occur every 5 years but this one was postponed for two years because the government wanted to avoid "sharp changes" to business rates bills. But the shifts in property values since 2008 - with prices rising strongly in many parts of London and the South East, but falling steeply in some less prosperous regions, mean that there will be even more dramatic alterations. London businesses will bear the brunt of the increased bills.

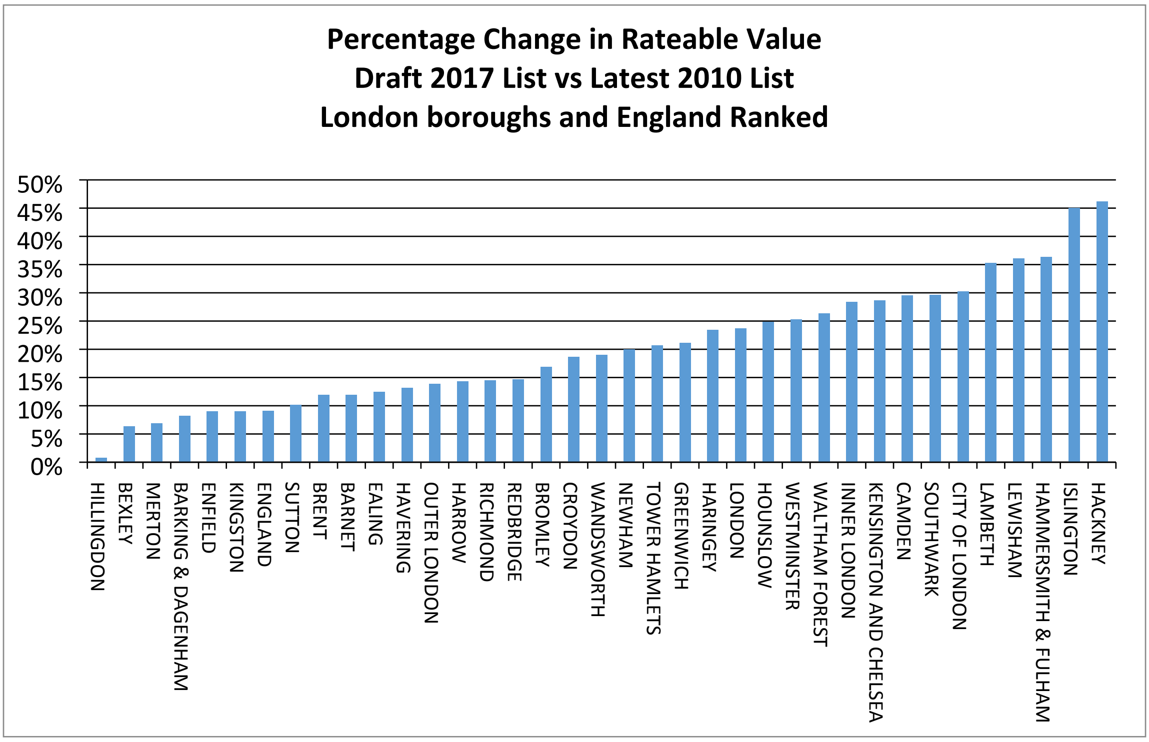
At any revaluation, some properties will see significant change – both increases and reductions. And so Transitional arrangements are used to phase in these changes. These will continue in 2017/18 and beyond. So those ratepayers facing increases (who will be in sectors and locations where rateable values have increased more than the average) will see their bill capped each year at a set percentage increase due to the revaluation; and those facing decreases will have their gains capped by the same method. The Government will ensure, (as far as is practicable), that the transitional arrangements are self-funding and that neither the government nor ratepayers overall are financially disadvantaged as a result of the scheme. To achieve this, the cost of the relief for those ratepayers facing increases must be funded from other ratepayers. There is a wide variation in RV changes across the regions of England. This is shown in the table and chart below which shows the % change in RV from 2010 and 2017 (post revaluation).

	% CHANGE IN RV
LONDON	**23.7%**
INNER LONDON	**28.4%**
OUTER LONDON	**13.9%**
ENGLAND	9.1%
NORTH EAST	-1.1%
NORTH WEST	-0.2%
YORKSHIRE AND HUMBER	-0.3%
EAST MIDLANDS	7.2%
WEST MIDLANDS	2.9%
EASTERN	3.9%
SOUTH EAST	8.6%
SOUTH WEST	3.8%

Inner London experiences the greatest increase in RV, followed by Outer London and the South East.

All London Boroughs experience an increase in RV. **Hackney's increase is the highest (46%)** and Hillingdon the lowest (1%). This is shown in the chart below.

Change in London Borough RV's resulting from Revaluation



It follows that the revaluation is likely to increase the 2017 rates bills of most ratepayers in Hackney, including the Council.

The Valuation Office asked all councils to send out a letter, week commencing 17th October which gives ratepayers information on the revaluation. In particular, it gives a web address where all ratepayers can check their new RV and let the VO know if they believe the VO has not recorded the correct details for their property.

We will also put out our own information pack, which in particular, gives details on reliefs that are available and how they can be applied for.

The Government issued a consultation paper at the time of publishing the revaluation results which is concerned with the operation of the transitional scheme arrangements. We will respond to this and in our response we will argue for the best deal for our ratepayers. We will liaise and work with London Councils and other Boroughs on this matter.

2.6 The latest position in relation to **GENERAL FUND REVENUE EXPENDITURE** is summarised in table 1 below.

TABLE 1: GENERAL FUND FORECAST OUTTURN AS AT AUGUST 2016/17

Original Budget	Virements	Revised Budgets	Service Unit	Forecast: Change from Revised Budget after Reserves £k	Change from Previous Month £k
83,536	1,863	85,399	Children's Services	0	0
89,997	494	90,491	Adult Social Care	2,437	-302
-66	0	-66	Public Health	0	0
173,467	2,357	175,824	Total CACH	2,437	-302
43,756	1,528	45,284	Public Realm	-6	-6
11,346	3,920	15,266	Finance & Corporate Resources	343	41
12,634	1,155	13,789	Chief Executive	-35	-497
1,681	42	1,724	Housing - GF	-57	-3
29,048	-9,002	20,046	General Finance Account	0	0
271,932	**0**	**271,933**	**GENERAL FUND TOTAL**	**2,682**	**-767**

3. RECOMMENDATIONS

3.1 To note the overall financial position for August 2016, covering the General Fund and the HRA and the earmarking by the Group Director of Finance and Resources of any underspend to support funding of future cost pressures and the funding of the Capital Programme.

3.2 Cabinet approves the use of Corporate Contingencies to fund the London Fields Lido works and other costs as noted in 2.3 above. The decision to use Corporate Contingencies for this purpose will be delegated to the Group Director of Finance who will review the position at year end.

3.3 Cabinet approves the use of Corporate Directorate Contingencies to fund the local elections costs as noted in 2.4 above. The decision to use Corporate Contingencies for this purpose will be delegated to the Group Director of Finance who will review the position at year end

4. REASONS FOR DECISION

4.1 To facilitate financial management and control of the Council's finances and to approve the use of corporate directorate contingencies.

4.2 CACH

In overall terms the CACH directorate is forecasting a forecast overspend of £2.437m.

Children Services

CYPS are forecasting a nil variance against budget after reserves and drawdown of grant.

Corporate Parenting Overspend

The 2016/17 forecast position as at August 2016 is an overspend of +£369k on overall Corporate Parenting, after use of reserves. This is comprised of an underspend in the Adoption Service of -£2k, an overspend of +£154k in LAC and Leaving Care and an overspend in 'core' Corporate Parenting of £217k. The overall change in placement costs from July to August is an increase of £197k and this is reflected in an overall increase in costed placement numbers of 7.

Points to note:

- The number of looked after children (LAC) for which we incur a cost (excluding UASC) increased to 307 from a restated total of 300 in July. The restatement has been made to account for 3 Hackney children in Other Local Authority placements that were not included in July.

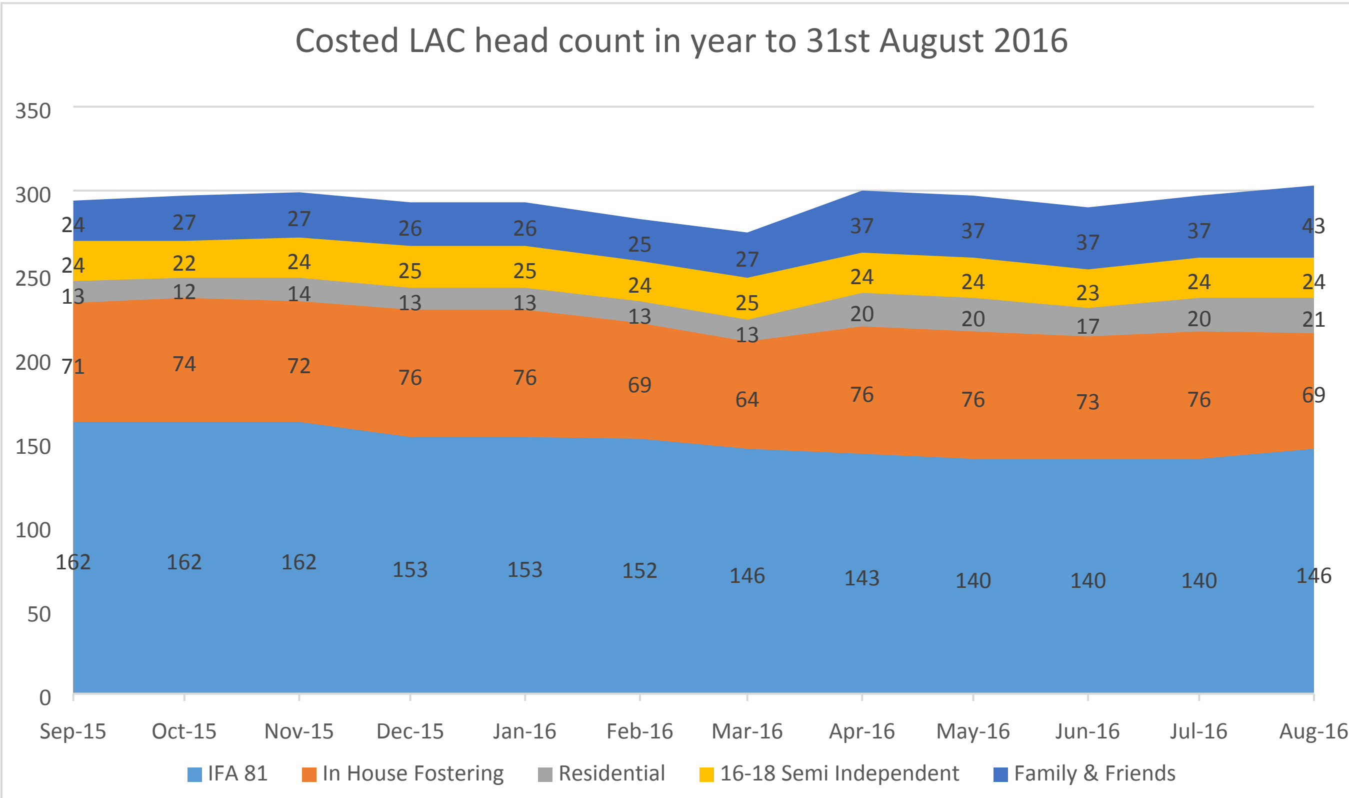
- Residential care placements are forecast to continue to overspend in 2016/17 by +£1,293k, costing a total of £3,263k, a decrease of -£309k over the July forecast of £3,571k. The average unit cost of residential placements is £176k.

- The shortage of in-house foster carers in previous years remains an issue and expenditure on independent foster carers exceeds budget. There has been a reduction in the number of in-house placements (-7) since July and an increase in IFA placements (+6), however, the additional costs associated with IFAs is forecast to result in an overspend of +£761k whereas the cost of in-house placements is forecast to be -£411k under budget.

- Management has in place a strategy to recruit and retain in-house foster carers including a reward offer to Council staff who recommend a successfully approved foster carer. However, it should be noted that Foster Carer recruitment is a London-wide issue which may not show significant improvement in the short to medium term.

- Over-18 placements are forecast to overspend in 2016/17 by +£328k, a decrease of -£54k over the July forecast reflecting an additional 1 place and an increase of 3 over July in the numbers claiming Housing Benefit.

The chart below shows that over the last 2 months LAC placements have increased by 7 and as at August 2016 stand at 307. The profile of foster care placements has fluctuated since July and this month in-house fostering placements have decreased to 69, while IFA placements have increased to 146. Residential care placements (our most costly placement for children in care), have increased from 20 in July to 21 in August 2016. Not shown on the graph are an additional 3 Hackney LAC who were placed with foster carers from other local authorities in July and 4 in August.



Key Metrics	July 16 OFP	August 16 OFP	Status	Comments
Overall LAC Headcount	300	307		This records the number of LAC where there is a financial commitment – this has seen an overall increase of 7 since July. July has been restated from 297 to 300 to include 3 placements of Hackney children with foster carers in other local authorities now reported separately.
IFA Placements	140	146		Forecast expenditure on IFA placements for the year has increased by +£335k over the July forecast due to an increase in headcount.
Average cost of IFA Placement	£44,201	£44,051		
In house placements	76	69		A decrease of 7 in-house placements has slightly less favourable financial impact due to marginally higher costs per placement and the fact that some of these placements ultimately end up in IFAs.
Average cost of in house placements	£20,631	£20,919		
In-House Fostering Vacancies	18	21		This counts the number of vacancies in approved placement beds for distinct family units (not including beds just for siblings). This figure has also been adjusted so as not to include those vacancies that are judged to have been as a result of either an issue with the carer or the child in placement (reducing the number by 44).
Residential Placements	20	21		Forecast expenditure on residential placements has decreased by -£309k since July due to one high-cost child going home, one missing child with provision assumed to start again in October and Bromley Council picking up costs of another.
Average cost of Residential Placement	£184,265	£194,798		

Other overspends

Children in Need is forecast to overspend by £384k.

The overspend is mainly due to staffing overspends arising from a significant number of vacant posts (21) covered by agency staff, who are generally paid at a higher rate than equivalent permanent staff. Provision for maternity cover has also increased costs. Overall staffing accounts for £333k of the overspend. Legal costs and LAC incidental costs account for the balance of the overspend part offset by reductions in other areas.

The variance to the July OFP (-£65k) is due to a decrease in Section 17 outturn from transfer of NRPF cases to OFIT and budget variation for permanent staff which includes the 1% budget uplift adjustment.

Youth Justice is forecast to overspend by £69k after use of reserves.

The overspend is due mainly to additional staffing costs due to agency staff covering vacant posts and one over-establishment post assisting on the Asset Plus system, which is scheduled to end in November 2016.

Access and Assessment is forecast to overspend by £172k.

The overspend is mainly due to staffing overspends from 4 maternity leave covers and 4 over established agency staff.

The variance to the July OFP (£207k) relates to the pending budget transfer of 2 vacant social work units to Directorate Management of £344k (representing early delivery of savings) and underspends in late recruitment of staffing.

Directorate Underspends

Overspends in Corporate Parenting, Children in Need, Youth Justice and Access and Assessment are offset by underspends elsewhere in Directorate Management Team, Disabled Children's Services and Family Support Services.

The Directorate Management Team is forecast to underspend by -£732k.

This underspend has increased by £357k, mainly as a consequence of the pending transfer to this cost centre of the budget for two vacant social work units from Access and Assessment (early delivery of savings).

The underspend is due to delayed recruitment to two posts and two posts expected to remain vacant (-£100k), vacancy factor funding (-£200k), Legal cost funding (-£148k), part offset by increased cost of interpreting fees (+£63k). The DMT underspend will be kept under review as the process of recruiting to the structure progresses

The Disabled Children's Service are set to underspend by -£68k following a reduction in the forecast spend identified by improved methods of forecasting. There is a reduction in the expected use of reserve, which is now -£185k, down from -£250k in July. The budget virement of £182k for LLW is also incorporated in the forecast.

The Family Support Services is forecast to underspend by -£172k due mainly to staffing underspends.

Hackney Learning Trust

The Hackney Learning Trust (HLT) forecast is consolidated into the CYPS position. As part of the delegated arrangements for the HLT any overspend or underspend at year end will result in a contribution from or to the HLT reserve and expenditure is reported on budget. However, it should be noted that HLT are forecasting a significant drawdown on the HLT reserve (£3.8m), similar to last year, as a result of additional needs pressures

Adult Social Care & Community Health

The August 2016/17 forecast for Adult Social Care is a £2.437m overspend (2.7%). This is an improvement of £302k on the July position.

The major area of overspend continues to be Care Support Commissioning, which for August has a £2.959m overspend. This is a £345k improvement on the July forecast and reflects the latest snapshot of commissioned care as per the following table.

Service Type	2016-17 Budget	August 16 Forecast	Full Year Variance to	Change on May Forecast

			budget	
	£000	£000	£000	£000
Learning Disabilities	12,738	14,598	1,860	(268)
Physical and Sensory	9,939	10,127	189	(260)
Memory and Cognition and OP MH	5,725	6,548	823	201
Assistive Equipment & Technology	495	653	158	(22)
Voluntary Sector Contracts -OP	708	714	6	-
Other	245	168	(77)	5
Total	**29,850**	**32,810**	**2,959**	**(345)**

The key improvements in Care Support Commissioning are within Learning Disabilities (£268k) and Physical/Sensory Support (£260k). For Physical/Sensory, £98k of the improvement relates to an increased reserve contribution to cover cost of voids at Leander Court, with a further £109k improvement being adjustments to reflect clients care type allocations and package cost updates. Our total forecast cost for property voids has increased by £20k, to £382k for the year. The remaining £40k is net impact of clients where we have seen a net increase in our cohort receiving a service of nine people.

The £268k reduction in the Learning Disabilities function reflects the latest snapshot of clients, taking into account minor changes around starters, leavers and package changes (£124k), the transferring of one client to another borough (£86k) and revisions to the forecast for respite (£58k) following a review of spend in-year.

Memory and Cognition and Older People Mental Health has seen an increase in its forecast of £201k, to £823k overspend. The two key constituent parts are £190k increase for a total of 18 new clients across the service, with the balance of the change being a combination of leavers and adjustments to packages. The net increase in service users is 12.

The Provided Services function has seen an improvement of £234k, to £81k overspend. This is explained primarily by the corporate budget adjustment to cover changes in Employers National Insurance contributions for this financial year which had not been factored into prior months' forecasts. As a front line service Provided Services sees a more significant increase in its budgets than other areas. The decision to increase staffing budgets to reflect 1% pay award on vacant posts was made as this forecast was being finalised and this is likely to have a further improvement in Provided Services in the September forecast.

Mental Health services jointly provided with the East London Foundation Trust is forecasting a reduction in the underspend to £77k.This is primarily within externally commissioned packages of care, where there has been an increase in clients across residential care (three clients, £127k) and Supported Living (£110k, three clients).

The Commissioning division forecast has had a marginal adverse movement of £10k, to £590k underspend. There remains a £780k underspend in our Housing Related Support Programme, relating to early delivery of savings. The £190k pressure relates to staffing budgets as previously outlined.

Senior Management scrutiny of the Adult Social Care function continues through the monthly ASC budget board process which is chaired by the Chief Executive.

Public Health is forecasting a breakeven position, representing no change on the July position.

4.3 PUBLIC REALM

The August 2016/17 forecast for the Public Realm division is a £6k underspend. As with the July position, the key area to focus on is Environmental Operations function, which is breakeven but within this overall position contains the following variances.

Environmental Operations – Aug 2016/17 forecast	Aug £000	July £000	Movement
Waste Collection, Recycling and Street Cleansing	960	906	54
Commercial Waste	(890)	(836)	(54)
Hygiene Services	0	18	(18)
Toilets	(47)	(47)	0
Other	(23)	(41)	18
Overall position	**0**	**0**	**0**

The main pressure continues to be within the largest strand of the service which provides domestic waste collection, recycling and street cleansing functions, however when combined with the Commercial Waste function, the service as a whole comes to a broadly breakeven position. The service is currently reviewing the apportionment of staffing costs and vehicle costs across the domestic and commercial operations to ensure this accurately reflects what is happening on the ground.

The domestic operation currently contains a cost pressure on staffing of £1.2m, which is driven in part by an increase in the cost of the workforce over recent years within one of our largest front line and internally provided services (budgeted 340 FTE posts), including legislative changes such as equal pay directive, pension charges on overtime and national insurance changes, equipment (£354k) and vehicle maintenance (£194k). These pressures are offset by targeted reserve funding of £736k, - £316k on staffing (£164k less than last month following budget adjustment for pay award and National Insurance changes), £220k covering cost of food waste recycling on estates, and £200k funding fuel cost pressure.

The Commercial Waste forecast is £890k underspend, which is a positive movement of £54k on the July position which is predominantly due to an adjustment to the income forecast. The underspend as a whole is driven by two main factors:

- £145k underspend against the cost of waste disposal - the cost per tonne charged for waste disposal by North London Waste Authority (our statutory waste disposal provider) has reduced this year following the introduction of menu pricing. The harmonising of the price we pay per tonne for waste disposal across commercial and domestic refuse (where previously a higher rate was paid for commercial and a lower rate for domestic) means we expect to see a year on year reduction of circa £300k charges for commercial with an equivalent increase rise on our domestic levy.

- Income surplus of £802k on £4.6m budget, which reflects an ongoing positive income position for commercial waste services, and an upturn of £69k from previous month. The income position is reviewed regularly to take into account one off special collections.

Within the rest of Environmental Operations, the Hygiene Services and Public Conveniences is forecast to be £47k underspent. The represents a positive movement from July of £18k in Hygiene Services due to Supplies and Services efficiencies. In Public Conveniences there is nil movement and the surplus of £47k remains which reflects efficiencies made in the operation of the service.

Parking, Streetscene, Environment and Waste Strategy, Leisure, Green Spaces and Libraries are forecasting break-even positions.

Planning and Regulatory Services (PRS) are forecasting a £6k underspend, after reserve transfers.

The Building Control service within PRS is operating at a deficit. This is mitigated by a planned usage of the shortfall in Building Control Income reserve (£281k). There are a number of initiatives to improve marketability including a revised charging schedule. Progress of the service improvement initiatives is being monitored closely in 2016/17.

There is a +£76k variance in Business Support due to additional staff required to process a high volume of planning applications, and overtime working in a one-off data transfer project. These costs will be met from the forecast surplus in planning fees.

Building Control is forecast to under-recover income by £281k. This will be met by a reserve drawdown £281k.

Further planned utilisation of reserves is forecast in other areas of PRS, to meet the cost of planning and policy related projects and deal with high priority enforcement cases.

Management Action to Reduce Overspend

Service	Date when overspend first reported	Reduction in Overspend to date	Overspend amount forecast at year-end	Commentary on Action (see below for explanation)
		£k	£k	
Building Control	**June-15**	**0**	**£281k**	- Improved marketability and reduction of fees undertaken via a DPR in October 2014. - Milestones plan monitored and status updates against DPR - Increased market share & bigger project wins

The resulting expenditure reductions from these actions are being factored into the forecast as they are achieved. The forecast drawdown from the Building Control reserve will be reduced accordingly.

4.4 Finance & Corporate Resources

There is a forecast overspend of £343k, resulting from on-going cost pressures in revenues and benefits, temporary accommodation and ICT continue. Overspends here are partially offset by underspends elsewhere in the service.

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4.5 Chief Executive

Overall the Directorate is forecasting to underspend by £35k. There are forecast overspends of £209k in Chief Executive's Office (primarily in Regeneration Delivery) and in HR (£48k) which are offset by underspends of £242k within the Legal & Electoral Services and within PPD (£38k).

4.6 General Fund Housing Services

The service is forecasting to come in at £57k under budget reflecting a reduction in the forecast spend on Staffing Costs and Repairs and Maintenance within Travellers (£25k) and also an increased amount of expenditure identified as capital within Leasehold and Income Delivery (£43k).

4.7 HRA

The HRA is forecast to come in on budget.

Income

There is a £746k favourable variance within Dwelling Rents. This is due to a lower number of Right to Buy (RTB) sales than expected and also a reduction in the amount of void losses incurred. There is also a £522k favourable variance within Leaseholder Charges for Services & Facilities. This has been based on the latest service charge estimates, which were finalised after the budget setting process. There is though, a £109k unfavourable variance within Non-Dwellings Rents which relates to lower garage income than budgeted; and a reduction in Tenant Charges Income relating to Estate Cleaning (£110k) and Block Cleaning (£77k). The reasons for the reduction in income are being investigated further.

Expenditure

Within the Housing Repairs Account, Void and Routine Repairs are currently forecast to be £175k and £130k overspent respectively. These are offset by savings in Environmental works (£280k), Drains (£88k) and Client Fees (£80k). Within Special Services, £156k of the favourable variance relates to Estate Services, that are currently forecasting an underspend due to vacant posts. There is also a £21k saving on lifts which partly offsets an overspend of £29k on Water Charges within Housing Needs. The main variance within Supervision and Management relates to the planned overspend of the Neighbourhood & Repairs Contact Centre of c £690k due to additional staff requirements to manage call demand. A restructure is planned for later on in the year.

There is also £516k of planned expenditure within the Transformation Project which will be funded from reserves. Additionally, there is an increase in staffing costs within the Leasehold and Income team of £220k. It should be noted that the Legal Fees for Disrepair has currently been forecast to budget; and any overspend at year-end will be drawn down from a provision. The overspend in Rents, Rates Taxes and Other Charges relates to increases in Non Domestic rates of £90k and Water charges of £19k.

5.0 DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

This report is primarily an update on the Council's financial position, there are no alternative options here.

6.0 BACKGROUND

6.1 Policy Context

This report describes the Council's financial position as at the end of August 2016. Full Council agreed the 2016/17 budget on 2nd March 2016.

6.2 Equality Impact Assessment

Equality impact assessments are carried out at budget setting time and included in the relevant reports to Cabinet. Such details are not repeated in this report.

6.3 Sustainability

As above

6.4 Consultations

Relevant consultations have been carried out in respect of the forecasts contained within this report involving, the Mayor, the Member for Finance, HMT, Heads of Finance and Assistant Directors of Finance.

6.5 Risk Assessment

The risks associated with the schemes Council's financial position are detailed in this report.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

7.1 The Group Director of Finance and Resources' financial considerations are included throughout the report.

8. COMMENTS OF THE DIRECTOR OF LEGAL

8.1 The Director of Legal has seen the report and has no legal comments to make on the regular budget monitoring part of the report.

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