

Bath & North East Somerset Council

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| MEETING: | Cabinet | |
| MEETING DATE: | 5 th September 2018 | EXECUTIVE FORWARD PLAN REFERENCE: |
| | | E 3070 |
| TITLE: | Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2018 to July 2018 | |
| WARD: | All | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report Appendix 1: Revenue Monitoring Commentary Appendix 2: Key Scheme Capital Monitoring Commentary Appendices 3(i) & 3(ii): Proposed Revenue Virements & Revised Revenue Cash Limits 2018/19 Appendices 4(i) & 4(ii): Capital Virements & Capital Programme by Portfolio 2018/19 | | |

EXECUTIVE SUMMARY

a) Revenue budget

The Revenue budget outturn is currently forecast to be £2.6m over budget. This is mainly due to unmitigated delays in savings delivery of net £1.7m and additional demand in Children's Services £0.9m. This forecast has been made early in the financial year and can be rectified through a continued focus on the delivery of savings to ensure that either the savings currently planned can be delivered or through the current savings exercise to bring forward specific savings plans for the remaining £0.9m target. The report below highlights which savings are delayed and which are considered high risk and may not be delivered – those that are delayed £0.4m can be supported through the smoothing reserve but this will utilise all of the reserve allocation for 2018/19.

A Recovery Plan is also in place within Children's Services to mitigate the over budget position in placements, however, the budget is very sensitive to demand and the number of children in care.

b) Capital budget

The capital budget is currently showing slippage and or re-phasing into 2019/20 of £8.09m. There are currently no expected overspends on key schemes.

c) Council tax and Business rates

The current forecast Council's share of the year end Collection Fund position is:

- Council Tax – Surplus of £0.581m (2017/18 Deficit £0.154m)
- Business Rates – Deficit of £0.036m (2017/18 Deficit £1.473m)

Business rates collection is currently slightly lower than target and will be monitored closely over the next few months but can fluctuate early in the year because of varying payment patterns

d) Council Reserves

Council reserves are sufficient to mitigate the current position without requiring any unplanned use with the exception of the Budget Contingency Reserve which has been set up to mitigate budget risk. If this Reserve becomes depleted it will need replenishing when the budget is set for 2019/20.

1 THE ISSUE

- 1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2018/19 to the end of July 2018.

2 RECOMMENDATION

The Cabinet agrees:

- 2.1 To note the 2018/19 forecast over budget of £2.6m (as at the end of July 2018) and the recovery plan actions outlined in Appendix 1;
- 2.2 To note the mitigations that will be required shown in paragraph 5.6, if the over budget position cannot be reduced by the end of the financial year
- 2.3 To note the capital year end forecast detailed in paragraph 5.16 of this report;
- 2.4 To note the revenue virements listed for information in Appendix 3(i);
- 2.5 To note the changes in the capital programme including capital schemes that have been agreed for full approval under delegation listed in Appendix 4(i)

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 The financial implications are contained within the body of the report.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 The annual medium term financial planning process allocates resources across services with alignment of these resources towards the Council's corporate priorities. This report monitors how the Council is performing against the financial targets set in February 2018 through the Budget setting process.

5 THE REPORT

REVENUE BUDGET

- 5.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.
- 5.2 Service Directors have been asked to outline the actual expected outturn for the year and the reasons to date for over / under budget forecasts. For revenue budgets which are forecast to be over budget, the Directors are expected to seek compensating savings to try and bring budgets back to balance.
- 5.3 A summary by Portfolio of the revenue position as at 31st July 2018 is shown in the table below:

| Portfolio | Revised Budget £'m | Year End Forecast £'m | Variance Over / (Under) £'m |
|------------------------------------|-------------------------------|----------------------------------|--|
| Leader | 2.28 | 2.41 | 0.13 |
| Finance & Efficiency | 3.45 | 4.09 | 0.64 |
| Transformation & Customer Services | 5.77 | 6.07 | 0.30 |
| Adult Care, Health & Wellbeing | 62.99 | 62.03 | (0.96) |
| Children & Young People | 27.53 | 28.43 | 0.90 |
| Economic & Community Regeneration | (5.54) | (5.41) | 0.13 |
| Development & Neighbourhoods | 18.47 | 19.00 | 0.53 |
| Transport & Environment | (1.66) | (0.70) | 0.96 |
| Total | 113.29 | 115.92 | 2.63 |

Note1: Some of the figures in this table are affected by rounding.

- 5.4 The current **year-end** forecast is an over budget position of £2.63m, which equates to 0.98% of gross budgeted spend (excluding Schools).

Portfolio Commentary

- 5.5 Key variances and associated actions by Member portfolio are as follows, a more detailed breakdown can be found in Appendix 1.

Leader (£0.13m over budget)

The variance is due to implementation of savings plans for sharing legal services re-phased into 2019/20. Other savings options are being considered to address the over budget position.

Finance & Efficiency (£0.64m over budget)

Portfolio variances are mainly attributable to some slippage against the Commercial Estate revised income target, new property acquisitions are planned that will create additional part year income and generate full year income from 2019/20. The performance of commercial estate income will continue to be closely monitored.

Transformation & Customer Services (£0.30m over budget)

The over budget position is due to salary costs from slippage against savings targets in Customer Services and Strategy & Performance. Achievement of these savings will need to be managed through the delivery of the agreed service review and re-design proposals.

Adult Care, Health & Wellbeing (£0.96m under budget)

The Adult Care, Health & Wellbeing portfolio has a forecast under budget position of £0.96m; this is as a result of a favourable variance of £0.5m due to the improvement in the 2017/18 year end outturn from £3m to £2.5m over budget, where £3m in growth was applied to rebase the Adult Social Care budgets for 2018/19.

In addition, the £0.46m Adult Social Care Support grant is being held as a contingency budget for further in year pressures in purchased care. Current forecasts are indicating the Adult Social Care costs are manageable within the 2018/19 rebased budgets.

Children & Young People (£0.90m over budget)

The over budget position is made up of £0.7m due to increased costs in residential placements, where there has been increased demand through a shortage of foster care that can meet individual needs, and also an increase in vulnerable adolescents. It is also anticipated that there will be increased demand for Home to School transport creating a £0.2m budget pressure. Both this and the Children's placements will be closely monitored and reviewed to establish whether the cost increase can be managed by alternative care provision and demand management.

Economic & Community Regeneration (£0.13m over budget)

The over budget position is part due to short term borrowing costs of £72k whilst key capital schemes are in development phase, alternative funding sources are being reviewed to mitigate this in year pressure. Within the Economy and Culture cash limit, there is an over budget position of £81k from contract payments which will need to be mitigated through a review of contracts to ensure payments can be managed within the available budget envelope.

Development & Neighbourhoods (£0.53m over budget)

The over budget position is from operational pressures £0.3m within Waste from increased volumes on the recycling service. Whilst this has created additional cost, the service are now reviewing income generated to establish whether this will mitigate the additional costs.

Current forecasts are indicating under performance in Development Management £0.24m from planning income, as a result of a reduction in planning applications and one off legal costs.

Transport & Environment (£0.96m over budget)

There is a reported pressure in Highways and Traffic Management of £0.5m due to under performance against savings targets requiring a reduction in the annual highways maintenance cost. This will need to be reviewed against activity levels to explore mitigation options.

In addition, it is currently forecast that the challenging savings in Public and Passenger transport will not be fully achieved in 2018/19, this is alongside a

base budget pressure from concessionary fares, resulting in an over budget position of £0.53m. The Portfolio total is part mitigated by a small favourable variance in Parking Services.

REVENUE BALANCES, CONTINGENCY AND RESERVES

5.6 Use of Reserves to Mitigate the Over Budget Position

If the current forecast position is not reduced by year-end, the following earmarked reserves will be utilised:-

| Mitigation | Amount £'m |
|--|-----------------------|
| Financial Planning & Smoothing Reserve | £0.90m |
| Revenue Budget Contingency Reserve | £1.73m |
| Total | £2.63m |

Key Reserves

The following table shows the balances of key reserves at the beginning of the year, planned use, and expected balance at the year-end based on current forecast including the mitigations outlined in the table above:-

| | Unallocated Balance as at 1/4/18 £'m | Projected Use in Year £'m | Current Estimated Balance 31/3/19 £'m |
|---|---|--|--|
| Revenue Budget Contingency | 2.38 | 1.73 | 0.65 |
| Financial Planning and Smoothing Reserve* | 6.41 | 4.07 | 2.34 |
| Transformation Investment Reserve* | 2.38 | 1.74 | 0.64 |
| Restructuring & Severance Reserve | 2.23 | - | 2.23 |

Note * Use of these reserves are in line with budget plans agreed in February 2018

5.7 The 2019/20 budget will need to factor in any requirement to replenish the Revenue Budget Contingency reserve to £1.5m in line with the approved Medium Term Financial Strategy. There is currently no requirement to use non-earmarked reserves as part of these mitigations.

Reserves and Flexible Capital Receipts

Flexible Capital Receipts are being utilised for revenue spend that results in ongoing revenue savings. A target of £14.0m was agreed as part of budget setting in February 2018. This has now been updated to reflect the re-profiled requirement as follows:-

| | Actual Usage 2017/18 £'m | Estimated Usage 2018/19 £'m | Estimated Usage 2019/20 £'m |
|---------------------------|---|--|--|
| Flexible Capital Receipts | 3.301 | 6.699 | 4.0 |

At present £0.9m has been received in 2018/19 with a further £2.5m expected shortly and this will continue to be closely monitored to identify and profile receipts required.

General Fund Unearmarked Reserve

The General Fund Unearmarked Reserve is retained to meet the Council's key financial risks. In removing and capping the "Invest to Save" element the reserve is retained purely to meet those risks. The risk assessment has set a range of between £11.9m and £13.1m to meet those risks. The current estimate is that as at 31/7/18 the reserve will total £12.3m and will remain sufficient to meet those risks.

SAVINGS PERFORMANCE

5.8 The 2018/19 revenue budget approved savings of £17m, with £7.1m of these savings to be found through service re-design and restructuring. The table below shows forecast performance against the savings targets.

| Cabinet Portfolio | RED £'000 | AMBER £'000 | GREEN £'000 | TOTAL £'000 |
|--------------------------------------|----------------------|------------------------|------------------------|------------------------|
| | £000 | £000 | £000 | £000 |
| Leader | 157 | 0 | 92 | 249 |
| Finance and Efficiency | 813 | 650 | 2,029 | 3,492 |
| Transformation and Customer Services | 321 | 517 | 540 | 1,378 |
| Adult Care, Health & Wellbeing | 0 | 3,008 | 649 | 3,657 |
| Children & Young People | 307 | 43 | 1,221 | 1,571 |
| Development and Neighbourhoods | 121 | 202 | 1,635 | 1,958 |
| Economic & Community Regeneration | 242 | 103 | 2,076 | 2,421 |
| Transportation and Environment | 432 | 689 | 1,148 | 2,269 |
| Total | 2,393 | 5,212 | 9,390 | 16,995 |

| | | | | |
|-------------------------|------------|------------|------------|-------------|
| % By Risk Rating | 14% | 31% | 55% | 100% |
|-------------------------|------------|------------|------------|-------------|

The above table shows that significant progress has been made with £9.4m forecast to be fully delivered, £5.2m of savings have further work to be delivered and £2.4m are identified as high risk and may not be achieved during 2018/19. The Council's management team is currently reviewing in-year options for mitigations

Savings items that have been identified as high risk in 2018/19 and will require further action, mitigation or smoothing reserve are as follows:

- **Transport moving people from A to B - £312k.** Year 3 of a 4 year programme with some savings but primarily meeting additional demand hence not cashable. There is an action to carry out a mid-year review of the project savings targets against the remaining implementation plans.
- **Consolidation of Performance / intelligence function - £50k.** Only 50% achievable as savings have already been accounted for via management savings.
- **Corporate Travel Plan - £80k.** Options for delivery to be presented to and agreed by Senior Management Team (SMT) before implementation, delayed saving requiring smoothing reserve.
- **Commercial Estate - £574k.** Part of overall target of £1.025m linked to acquisition of investment properties has been delayed as it is fundamental to acquire the most suitable properties and complete the high level due diligence required.
- **Management arrangements and staffing - £900k** Briefs identifying savings have now been submitted by all Directors, these have identified £6.3m of savings with the majority of savings to be delivered in 2018/19. There is some slippage into April 2019 from identified savings of c£400k requiring use of the smoothing reserve. There remains a savings gap of £500k; Directors are considering areas of further savings that can be delivered in 2018/19 to mitigate this pressure but some additional smoothing reserve may be required.
- **Property development company - £150k.** In year shortfall resulting from delays in property transfers from the Council. Delayed saving requiring one off use of reserves to mitigate.

5.9 The Council's financial position, along with its financial management arrangements and controls, are fundamental in continuing to plan and provide services in a managed way, particularly in light of the medium term financial challenge. Close monitoring of the financial situation provides information on new risks and pressures in service areas, and appropriate management actions are then identified and agreed to manage and mitigate those risks.

5.10 Any revenue budget virements which require Cabinet approval are listed in Appendix 3(i). Technical budget adjustments are also shown in Appendix 3(i) for information purposes, as required by the Budget Management Scheme.

COUNCIL TAX & COUNCIL TAX SUPPORT

- 5.11 The current overall forecast outturn position on the Council Tax Collection Fund is for a surplus of around £0.581m for the Council's share, this represents a 0.65% variance against target income. The reason for the surplus is mainly due to the number of chargeable dwelling being slightly higher than forecast. For 2018/19, the tax base included an adjustment of £8.9m for the estimated costs of the Local Council Tax Support Scheme and current estimates are in line with this amount. The one-off impacts of the Council Tax collection fund projected outturn position will be built into the financial planning assumptions for the 2019/20 budget.
- 5.12 The collection rate for Council Tax was 39.29%, compared to the target of 39.17% at the end of July 2018.

NON DOMESTIC RATES

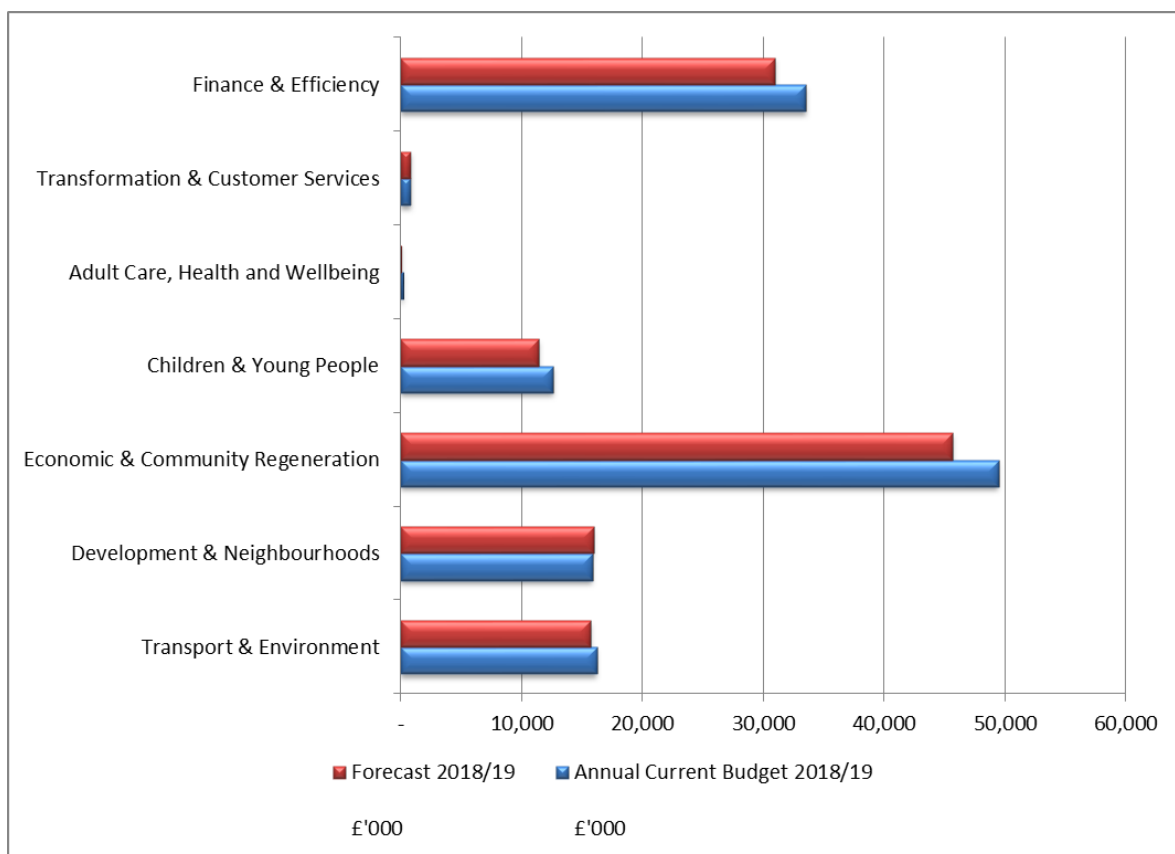
- 5.13 The current year-end forecast is for the Council's overall share of Business Rate income relating to 2018/19 to be approximately £0.294m less than estimated, which will impact on the Collection Fund. The overall Collection Fund deficit position, including the element relating to the 2017/18 outturn, is forecast at £0.036m. As set out in the Budget Report, the Business Rates Reserve will be utilized to fund any residual deficit and this position will be reflected in the 2019/20 budget. The main factors impacting on Business Rates are higher than forecast empty property and small business rate reliefs, partly offset by a reduced forecast appeals provision requirement following a number of appeals against the 2010 Rating List being withdrawn.
- 5.14 The collection rate for Business Rates was 40.46% at the end of July 2018, compared to the target of 41.55%.
- 5.15 As previously highlighted, there continues to be a future risk relating to NHS Trusts claims that they are entitled to mandatory charitable relief from Business Rates. This claim will ultimately be subject to a legal ruling, with the Local Government Association co-ordinating legal support on behalf of Local Authorities. Whilst the Council's view remains that the relief is not applicable in this case, if this position were to change, the granting of such a relief would present a significant challenge to the ongoing financial viability of the Council.

CAPITAL BUDGET

- 5.16 The current position for the 2018/19 Capital budget of £128.58m (excluding contingency) is for a forecast spend of £120.48m, which is £8.09m less than the budget. The full breakdown of the Capital Programme by Portfolio can be found in Appendix 4(ii) with key scheme commentary in Appendix 2.

| Portfolio Summary Monitor Capital Monitor April 2018 to July 2018 | Current Year 2018/2019 Forecast Outturn | | |
|---|---|--|--|
| | Annual Current Budget £'m | Forecast Actual Expenditure £'m | Forecast In-Year Variance £'m |
| Finance & Efficiency | 33.48 | 30.93 | (2.55) |
| Transformation & Customer Services | 0.80 | 0.80 | 0 |
| Adult Care, Health & Wellbeing | 0.22 | 0.08 | (0.14) |
| Children & Young People | 12.61 | 11.42 | (1.19) |
| Economic & Community Regeneration | 49.45 | 45.64 | (3.81) |
| Development & Neighbourhoods | 15.84 | 15.94 | 0.10 |
| Transport & Environment | 16.18 | 15.68 | (0.5) |
| TOTAL | 128.58 | 120.48 | (8.09) |

The graph below illustrates the value and forecast against budget for all in year capital budgets by Cabinet Portfolio:



Capital Commentary

The key variances are outlined below:

Finance & Efficiency

£2.5m slippage on planned drawdown of ADL Loan support reduced in current year reflecting fewer transfers (this will require re-phasing as part of 2019/20 budget setting).

Children & Young People

£1m slippage on Capital Planned Maintenance, relating to previous programme underspends where budget adjustment is required to realign funding back to provisional approval pending reallocation. (This will require re-phasing as part of 2019/20 budget setting).

Economic & Community Regeneration

£4m slippage on Bath Quays programme, where re-profiling of the multi-year programme is required reflecting change in the delivery timetable.

Transport & Environment

£0.5m slippage relating to Go Ultra Low West programme, scheme requires re-profiling to reflect delivery timetable and feasibility works on hold pending progression of the MetroWest project.

Previously approved changes to the capital programme are listed in Appendix 4(i) including schemes that have moved from Provisional Approval to Full Approval under delegated authority, while Appendix 4(ii) provides the updated capital programme allocated by Portfolio.

BUDGET RISKS

5.17 The key risks to the budget were outlined in the Councils 2018/19 Budget Report, in compliance with the Council's decision making risk management guidance. These have been reviewed with current risks identified in the table below:

| Risk | Likelihood | Potential Impact | Risk Management Update |
|--|------------|------------------|---|
| Further demands on service continue to escalate beyond current estimates | Possible | High | This is certainly a risk within Children's Services requiring ongoing monitoring of spend and controls. Ensure reserves are sufficient to manage in-year pressures |
| Interest rates increase | Likely | Medium | Interest rates rose by 0.25% in August 2018. A measured approach to our borrowing requirements has been made with £30m borrowed at the end of 2017/18. A reserve is available for borrowing to manage market risk and has also been factored into the longer-term MTFS. |

| Risk | Likelihood | Potential Impact | Risk Management Update |
|--|-------------------|-------------------------|--|
| The authority is currently underwriting part of £2.1m (over three years) in revenue costs from 2020/21 for the Metrowest Project. There also remains a risk of revenue reversion if the scheme does not go ahead | Possible | High | It is proposed that a programme approach is adopted, which will remove the potential revenue reversion risk. In order to try to avoid any future revenue operational costs, discussions are taking place to include the project within the new franchise process. |
| There may be a requirement for further funding in Adult Social Care community services, as a result of the re-assessment of existing community services contracts identifying on-going cost pressures | Likely | High | Costs are currently contained within the overall Adult Social Care budget and work will continue to assess these for future years |
| Volatility and uncertainty around business rates | Likely | High | Current monitoring shows that business rates income is expected to be £0.294m less than budget, and that the specific reserve is sufficient to manage in-year volatility. However, the retail sector may impact on income and we are closely monitoring any arrears, CVAs, and liquidations. |
| The Business Rates 100% pilot ceases | Possible | High | It has been confirmed that the 100% pilot will continue for 2019/20, but there will need to be discussions regarding retention in 2020/21 as the 75% retention scheme would add an estimated £3.9m pressure. |
| Anticipated savings not delivered or cannot be delivered because of external challenge | Possible | High | Ensured equalities impact assessments were completed and robust. Monitoring delivery plans and continuing to assess on a regular basis. Ensured Budget Contingency Reserve sufficient to meet in-year issues. |
| Reduction in staffing impacts on service delivery | Possible | High | Plans are in place to minimise the impact in key front line delivery areas. Ensuring regular communication is made to minimise the impact on staff morale. |

| Risk | Likelihood | Potential Impact | Risk Management Update |
|---|-------------------|-------------------------|--|
| Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements | Possible | High | The Council has a number of projects within this category. These risks will continue to be monitored and reported. Ensure that revenue reserves are sufficient to meet these risks. The new capital programme methodology looks to de-risk projects wherever possible. |
| Capital receipts in the areas identified are insufficient to meet target | Possible | High | Reviewing receipts regularly – prioritising to meet requirements. |
| Adult Social Care and Children's Service spend continue to have an adverse impact on the 18/19 budget | Possible | High | Implement enhanced level of operational and financial monitoring in 2018/19. Children's Services experiencing higher than expected demand in 2018/19 and work is underway to mitigate this. Need to continue to highlight the demand pressures to central Government regarding Adult Social Care and Children's Services |
| Changes to Government Policy that affects future funding | Likely | High | Key issues will be for funding from 2020/21 with changes expected through Fairer Funding, New Homes Bonus, and Business Rates. There is no clarity currently for any of these funding streams. |
| Economic downturn impacts on commercial income | Possible | High | Portfolio has been diversified to manage some of this risk – currently a need for enhanced monitoring of the retail sector. |
| Brexit risks | Likely | Medium | This will be dependent on the outcome of negotiations with the EU. Need to monitor any economic impact as could affect commercial, heritage and other key income streams, business rates, council tax, and council tax support. |
| Funding pressures through partner organisations | Possible | Medium | Ensure good communication links with partner organisations |
| The additional income from Heritage may not be sustained | Possible | Medium | Numbers of visitors and income slightly down on projections but budget is currently still on track overall - continue to monitor income levels over the next few months. |

6 RATIONALE

6.1 The report is presented as part of the reporting of financial management and budgetary control required by the Council.

7 OTHER OPTIONS CONSIDERED

7.1 None

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Finance & Efficiency, Strategic Directors, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The substance of this report is part of the Council's risk management process. The key risks in the Council's budget are assessed annually by each Strategic Director, with these risks re-assessed on a monthly basis as part of the budget monitoring process.

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| Background papers | <i>Budget Management Scheme</i> |
| Please contact the report author if you need to access this report in an alternative format | |