

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	6 th February 2019	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3072
TITLE:	Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2018 to December 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 £3.2m over budget. This is an improvement of £0.9m compared to the £4.1m reported previously. The areas over budget continue to be mainly due to, additional demand in Children's Services £2.2m and a c£1m shortfall in income from Commercial Estate, in addition there has been some slippage in savings delivery which are being part mitigated through service underspends and improved income performance. The position within Children's Services has in effect worsened as the figures shown include a transfer of £0.86m funding from Adult Social Care. However, there are a number of mitigations that are currently being reviewed as well as a recruitment freeze and Managers have been requested to minimise spend wherever possible which will further improve the year-end position.

b) Capital budget

The capital budget is currently showing an expected under budget position of £18.3m mainly due to slippage and re-phasing.

The Capital Programme now reflects the review that was completed in October 2018 and agreed as part of the previous budget monitoring report and £19.1m of projects were deferred or removed resulting in revenue saving of £0.6m.

c) Council tax and Business rates

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

- Council Tax – Surplus of £0.719m (2017/18 Deficit £0.154m)
- Business Rates – Deficit of £0.275m (2017/18 Deficit £1.473m)

Business rates collection has improved over the last quarter but still remains slightly lower than target and will continue to be monitored closely.

d) Council Reserves

Council reserves will be required to mitigate the current position if the actions being put in place are not successful. The current position would require use of £2.0m of the Budget Contingency Reserve (which was set up to mitigate budget risk) but the improved position would not require use of Un-earmarked Reserves. Provision has been made within the 2019/20 budget to replenish the Budget Contingency Reserve.

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 December 2018.

2 RECOMMENDATION

The Cabinet agrees:

- 2.1 To note the 2018/19 forecast over budget of £3.21m (as at the end of December 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)
- 2.6 To note the capital schemes listed in Annex 4(i) for removal / deferment from the current capital programme as approved at 18th December Cabinet.

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 December 2018 is shown in the table below:

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader	2.28	2.46	0.17
Finance & Efficiency	3.34	4.35	1.01
Transformation & Customer Services	5.67	5.97	0.30
Adult Care, Health & Wellbeing	61.92	61.29	(0.63)
Children & Young People	28.33	30.50	2.17
Economic & Community Regeneration	(5.18)	(5.51)	(0.33)
Development & Neighbourhoods	18.35	18.06	(0.29)
Transport & Environment	(1.27)	(0.47)	0.80
Total	113.44	116.65	3.21

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 £3.21m, which equates to 1.19% 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 (£0.17m over budget, £0.03m favourable from last period)

The variance is mainly due to implementation slippage to 2019/20 for the savings plans for sharing legal services that require further negotiation on the plans to share Council services. There has been improvement from the previous period from additional income.

Finance & Efficiency (£1.01m over budget, £0.07m favourable from last period)

Portfolio variances are mainly attributable to the timing of Commercial Estate acquisitions that will deliver the 2018/19 additional income target, new property acquisitions are moving forward to closure creating additional part year income and will generate full year income from 2019/20. The performance of commercial estate income will continue to be closely monitored.

Other over budget variances include print services as a result of the decision to retain the team to manage democratic services print requirements for the elections in May 2019 (e.g. ballot papers), these are part mitigated by

improved performance on corporate budgets and reduced spend in HR and IT from actions taken to help mitigate the Council budget position.

Transformation & Customer Services (£0.30m over budget, £0.04m favourable from last period)

The over budget position is due to salary costs from slippage against savings targets in Customer Services and Strategy & Performance, this has improved from the previous period by £60k. Full achievement of these savings will need to be managed through the delivery of the agreed service review and re-design proposals, plans are currently being developed and approved for implementation with full year savings to be realised from 2019/20.

Adult Care, Health & Wellbeing (£0.63m under budget, £0.23m adverse from last period)

The Adult Care, Health & Wellbeing portfolio has a forecast under budget position resulting from slippage on the implementation of iBCF (Improved Better Care Fund) grant funded schemes; this is a non-recurring £0.8m favourable movement from last period. The grant will be fully utilised funding placement and market pressures across the Social Care budgets creating an underspend on the additional Council funded budget allocated 2018/19. iBCF schemes for 2019/20 are currently being reviewed to ensure that schemes are being prioritised within the available funding and terms of the grant.

Whilst there has been some good progress on Social Care savings plans, placement budgets have moved adversely by £100k from the last reporting period. There has been cost movement across client groups from the reclassification of service users.

Children & Young People (£2.17m over budget, £0.008m favourable from last period)

The budget position has benefitted from a £0.86m budget transfer from the additional Council budget allocated to Adult Social Care. This additional funding has offset further increases in costs from the last reporting period. Movement from the last period includes key budgets that cover placements and adoptions which are forecast to be a further £525k over budget since the October forecast. This is due to additional sibling groups coming into Children's services and the extension of some high cost placements. Undeliverable Children Services savings of £285k declared earlier in the year have been included in this forecast as it is unrealistic for them to be achieved this financial year. Inter-agency adoption costs have risen a further £74k versus last forecast over budget due to not being able to match children with in house recruited adopters. These pressures been partially offset by the budget transfer mentioned above.

Management action includes all requests for children to come into care are subject to service manager scrutiny. Placement with family is always considered before care placement. We regularly review whether any children in care can return home. The Placements, Contracts and Commissioning Team use a preferred provider framework and dynamic purchasing system to negotiate the best price. We are reviewing our recruitment strategy for in

house foster carers to reduce the need to use more costly independent fostering agencies.

In addition to the above there is an increase in SEND placements that is funded from the high needs block within the Dedicated Schools Grant, the Council recognised these additional costs when setting the 2018/19 budget through funding growth of £2.3m. This area is under review following the DfE Consultation papers.

Economic & Community Regeneration (£0.33m under budget, £0.27m favourable from last period)

The favourable movement from the last periods monitoring is due to strong December performance in Heritage Services across all three visitor attraction locations. This has helped mitigate slippage against destination management savings plans.

Development & Neighbourhoods (£0.29m under budget, £0.57m favourable from last period)

There have been a range of service mitigations that have improved the previously reported over budget position by £0.57m, this is summarised below.

Building Control has improved from a reduction in expenditure budgets including water monitoring which has offset slippage on staffing savings. Public Protection has improved from the additional licence income from the Casino in Bath; the 2019/20 budget will be aligned to take into account this income.

Neighbourhoods and Environmental services have improved by £0.2m, this is due to improved waste disposal performance and one off staffing underspends.

There has been an improvement in Development Management of £0.17m through a one off under budget position from reduced use of consultants and staff savings including holding vacancies which are mitigating under achievement of income.

Transport & Environment (£0.8m over budget, £0.16m favourable from last period)

There is a reported pressure in Highways and Traffic Management of £0.2m due to under performance against savings targets requiring a reduction in the annual highways maintenance cost. This has improved by £0.19m from the previous period through on-going management of other pressures through vacancies and deferring work as appropriate.

In addition, it is currently forecast that the challenging savings in Public and Passenger transport are not fully achievable, this is alongside a base budget pressure from concessionary fares, resulting in an over budget position of £0.6m. This pressure has been recognised and accounted for in the 2019/20 budget as a planning item.

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 and Smoothing Reserve	£1.20m
Revenue Budget Contingency Reserve	£2.01m
Total	£3.21m

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	2.01	0.37
Financial Planning and Smoothing Reserve*	6.41	3.09	3.32
Transformation Investment Reserve *	2.38	0.50	1.88
Restructuring & Severance Reserve	2.23	0.00	2.23

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

The 2019/20 budget has factored in a requirement to replenish the Revenue Budget Contingency reserve to £2m. If the current financial position moves adversely there is the risk that General Fund Un-earmarked reserves will be required as part of these mitigations. A further improvement in the financial position will increase the Budget Contingency Reserve for 2019/20.

Reserves and Flexible Capital Receipts

Flexible Capital Receipts are being utilised to fund the Councils transformation activities that results in ongoing revenue savings as outlined in the 2018/19 budget proposal. 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 of £11.5m as follows:-

	Actual Usage 2017/18 £'m	Estimated Usage 2018/19 £'m	Estimated Usage 2019/20 £'m
Flexible Capital Receipts	3.124	5.376	3.000

At present £3.2m has been received with a balance of a further £5.0m forecast to be achieved by 31st March 2019.

General Fund Un-earmarked Reserve

The General Fund Un-earmarked 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 31/03/18 the reserve will remain at £12.2m and remains sufficient to meet those risks.

SAVINGS PERFORMANCE

5.7 The 2018/19 revenue budget approved savings of £17.3m, 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	329	895	2,314	3,537
Transformation and Customer Services	284	353	1,032	1,669
Adult Care, Health & Wellbeing	0	1,146	2,544	3,690
Children & Young People	332	43	1,196	1,571
Economic & Community Regeneration	25	0	2,396	2,421
Development and Neighbourhoods	84	15	1,859	1,958
Transportation and Environment	654	36	1,579	2,269
Total	1,864	2,487	13,012	17,363

The above table shows that significant progress has been made with £13m forecast to be fully delivered, £1.864m of which will not be achieved during 2018/19.

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 - £412k.** Year 3 of a 4 year programme with some savings but primarily meeting additional demand hence not cashable. Further opportunity to recover savings against the target is challenging but Officers will continue to work with the Cabinet Members and Officers in relevant areas to redesign and reduce services and costs where appropriate. The non-deliverable element of this saving has been recognised and accounted for in the 2019/20 budget as a planning item.
- **Corporate Travel Plan - £80k.** In October a package of measures was agreed in principle to reduce spend in this area. This is subject to further consultation including with trades unions. The trend reduction in mileage claims over recent years is expected to be continued”.
- **Commercial Estate - £630k.** 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 - £1.3m** There is some slippage into April 2019 from identified savings of c£200k that may require use of the smoothing reserve and slippage of c£1.1m on targets for 2018/19 that require service mitigations. 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.

5.8 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.

5.9 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

5.10 The current overall forecast outturn position on the Council Tax Collection Fund is for a surplus of around £0.719m for the Council's share, this represents a 0.8% 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.

- 5.11 The collection rate for Council Tax was 85.67%, compared to the target of 85.80% at the end of December 2018. This has no material impact on the forecast Collection Fund position reported above.

NON DOMESTIC RATES

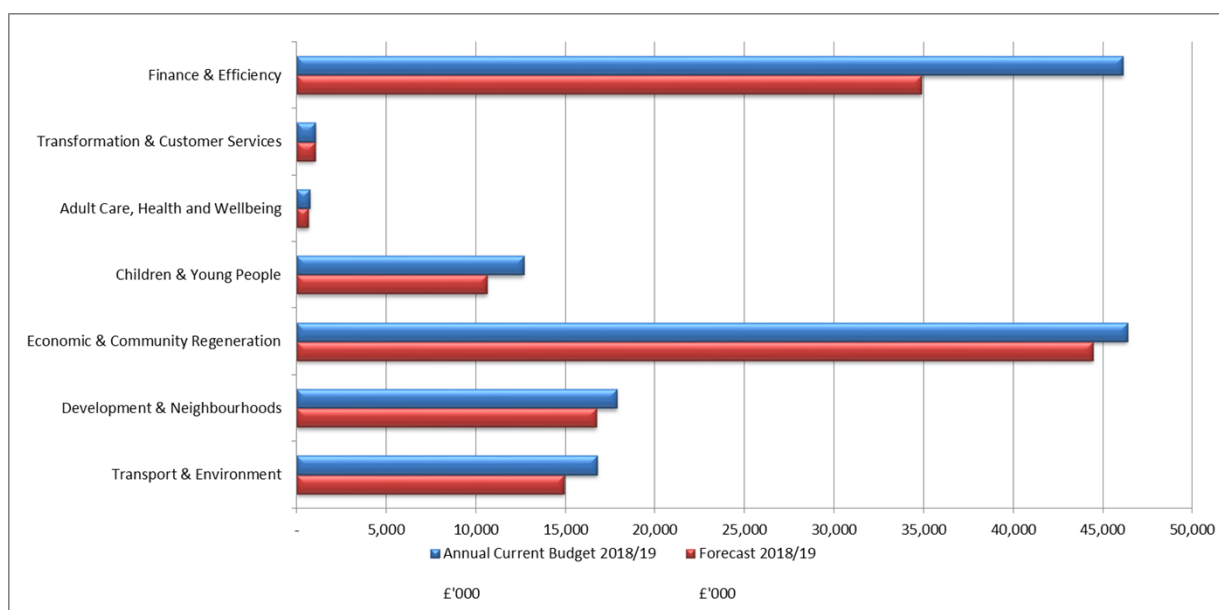
- 5.12 The current year-end forecast is for the Council's overall share of Business Rate income relating to 2018/19 to be approximately £0.532m less than estimated, which will impact on the Collection Fund. The overall Collection Fund deficit position, including the element relating to the 2017/18 outturn, is forecast at £0.275m. 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. A provision has been included in relation to the potential loss of income following the recent legal ruling that ATM/Cashpoint sites located in retail units were not liable for a separate business rates charge. These figures are in line with those last reported for the last quarter.
- 5.13 The collection rate for Business Rates was 83.67% at the end of December 2018, compared to the target of 84.37%.
- 5.14 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 a court hearing planned for November 2019, the Local Government Association is 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

- 5.15 The current position for the 2018/19 Capital budget of £140m (excluding contingency) is for a forecast spend of £121.3m, which is £18.3m 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	Annual Current Budget 2018/19	Forecast 2018/19	In-Year Variance 2018/19	Slippage to 2019/20	Other Variance 2018/19
	£'000	£'000	£'000	£'000	£'000
Finance & Efficiency	44.3	33.1	11.3	11.3	-
Transformation & Customer Services	0.9	0.9	0.0	-	-
Adult Care, Health and Wellbeing	0.8	0.7	0.1	-	0.1
Children & Young People	12.7	10.6	2.1	2.0	-
Economic & Community Regeneration	46.3	44.4	1.9	6.1	(4.2)
Development & Neighbourhoods	17.9	16.8	1.1	1.1	-
Transport & Environment	16.8	14.9	1.9	1.9	-
Grand Total	139.7	121.3	18.3	22.4	(4.1)

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



Capital Commentary

5.16 Key variances on the programme include:

- **Finance & Efficiency** - £11.3m less than budget, predominantly related to £9.9m against the planned drawdown of ADL Loan support being reduced in the current year reflecting fewer transfers, the remaining balance is from scheme slippage including £632k from the Corporate Property Planned Maintenance programme which is requested for re-phasing into 2019/20 in appendix 4(ii).
- **Adult Care, Health and Wellbeing** - £98k less than budget relating to reduced staffing requirement on liquid logic transformation programme.

- **Children's Services** - £2.1m less than budget, predominantly £1.4m on Basic Needs anticipated as slippage for the budget for planned works now in the new financial year. Parkside Children Centre and Family Intervention Team relocation also realigned £0.6m into 2019/20 after review. The Early Years and Education Improvement Programme which includes IT Management System identified £17k savings to save borrowing cost.
- **Economic & Community Regeneration** - £1.9m less than budget. This is the combined position from a projected £4.3m adverse variance against the current budget on Bath Quays South, where a further budget decision is expected shortly to correct the budget, and there is £5m in-year variance due to slippage on the Archway Centre project from the York Street works, appendix 4(ii) seeks approval to re-profile into 2019/20. Elsewhere the underspend and carry forward against in-year budget is from a variety of projects including affordable housing (£252k) and various public realm programmes (£866k) to reflect the timetable of delivery now anticipate.
- **Development & Neighbourhoods** - £1.1m forecast less than budget, predominantly relating to re-profiling of leisure projects totalling £544k, parks projects £226k, Waste relocation £157k and Neighbourhood Vehicles £194k.
- **Transport & Environment** - £1.8m forecast under budget variance, relating to scheme re-profiling of the block budgets to 2019/20 including Transport Improvement £545k, Highways Maintenance £400k and Street Lighting £380k.

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	Likely	High	This has now become an issue especially within Children's Services requiring immediate recovery actions. Reserves are sufficient to manage in-year pressures but will need replenishing in 2019/20 if utilised.
Risk	Likelihood	Potential Impact	Risk Management Update
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 and a further

			£25m in 2018/19. A reserve is available for borrowing to manage market risk and has also been factored into the longer-term MTFS.
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.
Volatility and uncertainty around business rates	Likely	High	Current monitoring shows that business rates income is expected to be £0.275m 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, empty properties, 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 £3.6m pressure which has been incorporated into future years financial planning.
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	Possible	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. Ensure that revenue

underwriting agreements			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	Medium	Currently £3.2m receipts have been received with a further £5.0m expected.
Adult Social Care and Children's Service spend continue to have an adverse impact on the 18/19 budget	Likely	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 but some of the current shortfall is due to issues within the retail sector.
Brexit risks	Likely	Medium	Given the vote on the 15 th January it remains uncertain when or how the UK will leave 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	Unlikely	Medium	Numbers of visitors and income higher than projected – 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	