

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	12th September 2019	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3156
TITLE:	Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2019 to July 2019	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Revenue Monitoring Commentary Appendix 2 – Key Scheme Capital Monitoring Commentary Appendix 3 (i) & 3 (ii) – Proposed Revenue Virements & Revised Revenue Cash Limits 2019/20 Appendix 4 (i) & 4 (ii) – Capital Virements & Capital Programme by Portfolio 2019/20		

EXECUTIVE SUMMARY

a) Revenue budget

The Revenue budget outturn is currently forecast to be £1.68m over budget. The areas over budget are mainly due to additional demand in Childrens Services £1.03m and a c£1m shortfall in income from Commercial Estate, there are a number of other smaller variances that amount to £0.32m favourable. Whilst the Childrens Services budget was re-based for 2019/20 there has been an unexpected increase in specialist Health and Social Care placements, Commercial Estate is due to a slowing down of high street retail income. To provide mitigation to this position Managers have been requested to develop cost reduction plans and 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 £30.5m mainly due to re-phasing of Bath Quays and ACL/ADL loan drawdowns into future financial years to reflect revised project spend profiles.

c) Council Tax and Business Rates

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

- Council Tax – Surplus of £0.44m (2018/19 Surplus £0.69m)
- Business Rates – Surplus of £1.59m (2018/19 Surplus £0.76m)

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 £1.68m of the Budget Contingency Reserve (which was set up to mitigate budget risk). Provision will need to be made within the 2020/21 budget to replenish the Budget Contingency Reserve for any drawdown made during 2019/20.

1 THE ISSUE

1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2019/20 to the end of July 2019.

2 RECOMMENDATION

The Cabinet is asked to agree:

- 2.1 To note the 2019/20 forecast over budget of £1.68m (as at the end of July 2019) and the recovery plan actions outlined in Appendix 1;
- 2.2 To note the mitigations that will be required shown in paragraph 3.6, if the over budget position cannot be reduced by the end of the financial year
- 2.3 To approve the revenue virements listed for approval in Appendix 3(i) and to note those virements listed for information only.
- 2.4 To note the capital year-end forecast detailed in paragraph 3.15 of this report;
- 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 THE REPORT

3.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.

REVENUE BUDGET

3.2 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. To achieve this the Directors will develop in year recovery plans, including:-

- Holding / deleting vacant posts;
- Centralising and reducing discretionary spend;
- Considering Voluntary Redundancy requests to enable agreed staffing savings.

3.3 A summary by Portfolio of the revenue position as at 31st July 2019 is shown in the table below:

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader	(0.36)	(0.41)	(0.05)
Resources	8.03	10.02	1.99
Adult Services	62.45	62.45	-
Children's Services	28.71	29.74	1.03
Climate Emergency & Neighbourhood Services	15.92	15.93	0.01
Transport Services	(0.58)	0.01	0.59
Housing, Planning & Economic Development	3.27	3.19	(0.08)
Community Services	(3.87)	(4.29)	(0.41)
Smoothing reserve to be allocated		(1.40)	(1.40)
Total	113.57	115.24	1.68

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

- 3.4 The current **year-end** forecast is an over budget position of £1.68m, which equates to 0.59% of gross budgeted spend (excluding Schools).

Portfolio Commentary

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

Leader (£0.05m under budget)

The variance is mainly due to a positive forecast in the return to the Council from the Aequus group, this will depend on property transfer targets being achieved. This has mitigated an adverse variance in the destination management contract with Visit Bath; this is due to the phased implementation of company changes that will deliver savings from 2020/21.

Resources (£1.99m over budget)

Portfolio variances are mainly attributable to a £1m shortfall on Commercial Estate income; this is due to a slowing down of retail income resulting from a UK wide structural change in the retail economy and the decision to limit further acquisitions of new income generating commercial assets as a result of changes in investment and Treasury Management guidance, which has impacted on the delivery of the annual savings target. This has been recognised as an ongoing risk and incorporated into the 2020/21 budget planning assumptions as an unavoidable pressure. To off-set this, a re-balancing of the commercial estate is taking place into other sectors, where possible, and capacity will be increased to more rapidly return voids to the market and the performance of commercial estate income will continue to be closely monitored.

There is also an adverse variance of c£1.4m as a result of the phased implementation of the Improving How We Work savings programme; this is being mitigated through the planned use of smoothing reserves with savings to be realised in full towards the end of the financial year.

There are favourable variances in Information Technology, Corporate Budgets and Risk & Assurance Services that have partially mitigated a pressure in Legal Services alongside the above adverse variances.

Adult Services (on budget)

The Adult Service Portfolio is on budget, however this has utilised £0.53m of the Adult Social Care reserve. This is planned use of the reserve, with the reserve funding ring fenced for the use on Adult Social Care expenditure. This has mitigated the over budget forecast in Learning Disabilities from new transition placements and placement pressures in Mental Health. There has been positive income from service user contributions that is helping mitigate the rising costs of care packages.

There has been some good progress on Social Care savings plans which is reflected in the monitoring position, with savings commentary in section 3.7 of this report.

Childrens Services (£1.03m over budget)

The Childrens Services financial position is £1m over budget; this is due to a £0.5m increase in the Joint Agency Panel specialist placements pooled budget. There has been an additional 5 placements in this financial year in addition to the full year effect of prior year placements. This budget and the placements it is funding are being reviewed by Social Care and Health commissioners to explore what cost management options are available. There has also been an increase in Childrens Social care residential placements alongside Unaccompanied Asylum Seeker Children costing more than the Government grant funding.

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 value. 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 above budget costs are £2.35m. This cost pressure has been recognised by the Council with a contingency budget of £2.35m for SEND made available to help prevent a negative DSG balance; however the current forecast indicates a further a £0.12m pressure to the DSG that will not be funded by Council reserves and require recovery plans.

Climate Emergency & Neighbourhoods (£0.01m over budget)

There are no material variances to report for the April – July monitoring report; services are forecast to be on budget at year end.

Transport Services (£0.59m over budget)

There is a reported pressure in Parking from income under recovery of £0.28m; this is largely attributable to early signs of behaviour changes following the new off street parking pricing structure. There has also been a reduction in PCN income from vacancies in enforcement officers that need recruiting into, income levels are being monitored closely; this has been recognised as a potential financial planning pressure.

It is also forecast that CCTV income target of £150k will not be achieved, a service review of the Councils CCTV operations is planned in the coming months that will assess the technology and service configuration with a recommended set of options for implementation.

Housing, Planning & Economic Development (£0.08m under budget)

There are no material variances to report for the April – July monitoring report; services are forecast to be on budget at year end.

Community Services (£0.42m under budget)

The favourable variance is from strong visitor performance in the first quarter of the year in the Roman Baths, both admission and retail income performed above budget expectations. There are also some service underspends from vacant posts in Heritage and Customer Services.

REVENUE BALANCES, CONTINGENCY AND RESERVES

3.6 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
Revenue Budget Contingency Reserve	£1.68m
Total	£1.68m

The 2020/21 budget will need to factor in any requirement to replenish the Revenue Budget Contingency reserve to £2m in line with the approved Medium Term Financial Strategy. There is currently no requirement to use non-earmarked reserves as part of these mitigations.

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 1/4/19 £'m	Projected Use in Year £'m	Current Estimated Balance 31/3/20 £'m
Revenue Budget Contingency	3.05	2.04	1.01
Financial Planning and Smoothing Reserve*	5.73	1.50	4.23
Transformation Investment Reserve *	2.15	1.85	0.30
Restructuring & Severance Reserve	2.18	0.00	2.18

Note * Use of these reserves are in line with budget plans agreed in February 2019

Reserves and Flexible Capital Receipts

Flexible Capital Receipts are being utilised for revenue spend that results in ongoing revenue savings. A three year target of £11.5m was agreed as part of budget setting in February 2019, this has now been updated to reflect the re-profiled requirement as follows:-

	Actual Usage 2017/18 £'m	Actual Usage 2018/19 £'m	Estimated Usage 2019/20 £'m	Estimated Total Usage £'m
Flexible Capital Receipts	3.12	3.45	4.92	11.50

Unapplied capital receipts of £1.25m were carried forward from 2018/19 and £1.10m has been received in 2019/20 so far with a further £4.80m expect 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. 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 31/03/20 the reserve will remain at £12.3m and remains sufficient to meet those risks.

SAVINGS PERFORMANCE

3.7 The 2019/20 revenue budget approved savings of £8.8m, with £2.2m of these savings to be found through service improvement, £3.2m from commissioning and contract management, £2m from additional income and the rest from service efficiencies. 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	150	280	0	430
Resources	60	2,839	437	3,336
Community (Leisure, Tourism & Culture)	0	9	1,350	1,359
Adult Care & Health	0	2,590	0	2,590
Children & Young People	0	0	418	418
Environment & Climate Change	16	0	260	276
Planning, Homes & Economic Development	0	95	-12	84
Transport	50	259	0	309
Total	276	6,072	2,454	8,802

The above table shows progress has been made with £2.45m forecast to be fully delivered, £6m is considered to be at risk due to delays and/or plans still being developed and £0.27m which will not be achieved during 2019/20.

Savings items that have been identified as high risk in 2019/20 and will require further action, mitigation or smoothing reserve are as follows:

- **Improving How we work Programme.**
 - **Consolidation of Performance / intelligence function £0.25m**
The first stage of the project has been completed the service are now focusing on delivery of the priorities for Children Service and improving resilience across the rest of the Council. The service will consider other opportunities for further consolidation and centralisation once the revised structure has been embedded.
 - **Office Accommodation £0.30m**
The Programme will continue to exploit the release of other buildings and income opportunities as the overall Programme progresses with staff working differently and more flexibly. Plans are in place to increase the footprint for the Police. Rental income will not start accruing until 20/21.
 - **Service redesign/digital business improvement £0.75m**
The Digital projects are already in progress and as the Programme has only just mobilised some savings will be identified this financial year but only a proportion delivered.
 - **Training £0.35m**
There is an insufficient amount to fund mandatory and essential statutory training for 2,100 staff across the council. Based on April-June spend we are forecasting a total spend of around £200k which is due to the insufficient amount transferred across from services upon centralisation.

- **Commissioning £2.59m**
A number of mechanisms have been identified to achieve these areas of savings. However, the activity to achieve growth avoidance is limited in

2019/20. Commissioning plans are more likely to come into fruition for 2020/21 and 2021/22. With that in mind, additional focus is being placed on targeting and reducing existing placements and packages. A Programme approach is in place which has identified a number of Projects that will achieve the longer term savings. However, some risks have been identified with realising cashable savings in 2019/20, due to phased implementation timescales.

- **Commissioning of Destination Management £0.150m**

The Visit Bath saving is unlikely to be achieved in 2019/20. Destination Management review is being commissioned and financial recovery plan being implemented by the Visit Bath Board to reduce annual running costs.

3.8 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.

3.9 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

3.10 The current overall forecast outturn position on the Council Tax Collection Fund is for a surplus of around £0.44m for the Council's share, this represents a 0.5% variance against target income. The reason for the surplus is mainly due to the number of chargeable dwelling being slightly higher than forecast. For 2019/20, the tax base included an adjustment of £9.16m 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 2020/21 budget.

3.11 The collection rate for Council Tax was 38.7%, compared to the previous year's figure of 38.8% at the end of July 2019.

BUSINESS RATES

3.12 The current year-end forecast is for the Council's overall share of Business Rate income relating to 2019/20 to be approximately £0.55m greater than estimated, creating a positive impact on the Collection Fund. The overall Collection Fund surplus position, including the element relating to the 2018/19 outturn, is forecast at £1.59m. As set out in the Budget Report, any surplus or deficit on the Business Rate Collection Fund and associated income will be transferred to or from the Business Rates Reserve for consideration as part of the Business Rates calculations for future years and this position will be reflected in the 2020/21 budget. Based on current forecasts, the projected balance on the Business Rate Reserve as at the end of 2019/20 is £2.76m, rising to £4.84m by the end of 2020/21, which represents c7.3% of annual business rates payable. The main in year factors impacting on Business

Rates are lower than forecast empty property and retail reliefs. This reflects the position based on current reliefs, and any further relief granted during the remainder of the financial year would reduce the projected surplus position.

3.13 The collection rate for Business Rates was 40.9% at the end of July 2019, compared to the previous year's figure of 39.6%.

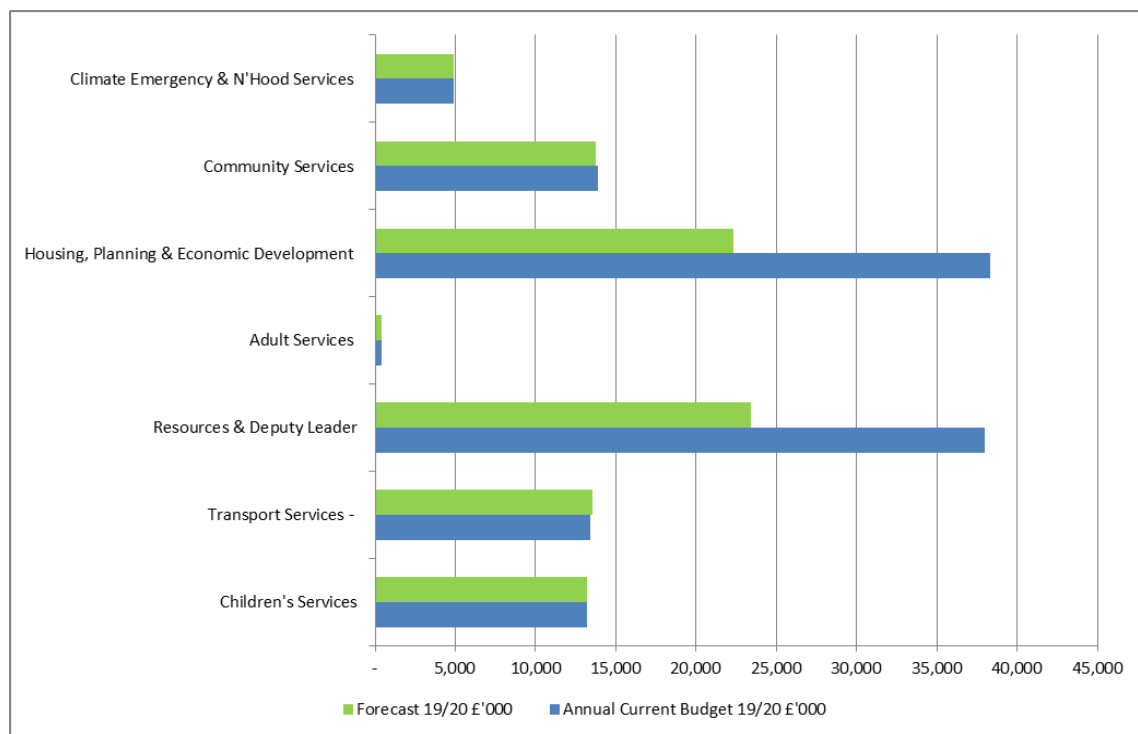
3.14 As previously highlighted, there continues to be a future risk relating to NHS Trusts claims that they are entitled to mandatory charitable relief from Business Rates. This claim will ultimately be subject to a legal ruling with a court hearing planned for November 2019, the Local Government Association 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

3.15 The current position for the fully approved schemes against the 2019/20 Capital budget of £122.1m is forecast at £91.6m, which is £30.5m 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 2019/20	Forecast 2019/20	In-Year Variance 2019/20	Forecast Re-phasing to 2020/21	Other Variance 2019/20
	£'000	£'000	£'000	£'000	£'000
Children's Services	13,205	13,205	-	-	-
Transport Services - Resources & Deputy Leader	13,389	13,566	(177)	-	(177)
Adult Services	37,982	23,393	14,588	14,697	(109)
Housing, Planning & Economic Development	433	433	-	-	-
Community Services	38,280	22,289	15,991	15,991	-
Climate Emergency & Neighbourhood Services	13,883	13,776	107	-	107
	4,899	4,899	-	-	-
Grand Total	122,070	91,561	30,509	30,687	(178)

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



Capital Commentary

3.16 Key variances on the programme and updates on key project funding approvals by portfolio include:

- **Community Services** - £0.1m less than budget due to Bath Library works currently being on hold.
- **Resources and Deputy Leader** - £14.6m less than budget. The underspend reflects re-profiling of loan drawdowns predicted by Aequus (the Council's property development company). The current projected total of loan drawdowns in respect of the Riverside View and Sladebrook Road developments for 2019/20 is £5.1m with further loan drawdowns of £2.4m anticipated in respect of property transfers. The remaining balance of the approved loan facility is forecast to be carried forward into 2020/21.
- **Transport Services** - £0.2m more than budget. There is an overspend arising from the York Street Beam Remediation Phase 1 of £179k. This was mainly incurred in 18/19 and has been carried into this financial year for recovery. Funding options are being explored.

A further report is included on this Cabinet meetings agenda seeking approval for £18.0m capital budget for the Clean Air Zone project, of which £5.9m is for full approval and £12.1m for provisional approval, subject to confirmation of grant funding award.

- **Housing, Planning & Economic Development** - £16.0m less than budget. This is predominately due to programme re-phasing to reflect contract awards to Legal & General on Bath Quays North and BAM on Bath Quays South, which have re-profiled cash-flow expenditure. Delivery programmes have been re-based to reflect planning consents now granted for both projects.

A Single Member Decision is being progressed in relation to Bath Western Riverside land and Infrastructure investment, where an increase in the provisional capital programme item from £12.5m to £29.8m is requested to incorporate additional external funding allocations from WECA and Homes England.

BUDGET RISKS

3.17 The key risks to the budget were outlined in the Councils 2019/20 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	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.
Pay awards will be higher than estimated	Unlikely	Medium	Agreement in place for 2019/20.
Interest rates reduce further impacting on investment income	Unlikely	Low	Shorter term rates are predicted to remain at current low levels although the impact on interest rates post Brexit remains a risk. A prudent view has been taken within the MTFP and cash is being utilised for purchase of assets while rates are low.
Interest rates increase	Possible	Medium	A reserve is available for borrowing to manage market risk and long term borrowing costs have been factored into the longer-term MTFP
Volatility and uncertainty around business rates	Likely	High	Current monitoring shows that business rates income is expected to be £1.59m higher than budget. However, the retail sector may impact on income and we are closely monitoring any arrears, CVAs, and liquidations with a specific reserve held to manage in-year volatility.
The Business Rates 100% pilot ceases	Unlikely in 2019/20	High	It has been confirmed that Combined Authorities will retain 100% of business rates in

			2019/20. Although possible it is unlikely that this will continue in 2020/21 and an estimated £3.6m pressure has been added to the MTFS
Anticipated savings not delivered	Possible	High	Ensure delivery plans are monitored and continue to assess on a regular basis. Where the monitoring has identified savings are at risk of slipping the project governance will need to escalate and resolve issues through Directors Group. Ensure Budget Contingency Reserve sufficient to meet in-year issues.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Likely	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. An assessment is made as part of the budget process to ensure that revenue reserves are sufficient to meet these risks. The capital programme methodology looks to de-risk projects wherever possible.
Changes to Government Policy that affects future funding	Likely	High	Need to monitor and continue to highlight impact
Economic downturn impacts on commercial income	Possible	High	Portfolio has been diversified to manage some of this risk especially within the retail sector. Where external factors cannot be mitigated the Council's future years budget will need to incorporate income pressures.
Brexit risks	Likely	Medium	With the likelihood of a no deal Brexit on the 31 st October there could be financial risks that will impact on the Council. A Council steering group has been set up to ensure the Council has taken all reasonable steps, in line with relevant guidance and messaging coming from Government and its agencies, to prepare for the exit from the EU on 31 October.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations.
The additional income from Heritage may not be sustained	Possible	Medium	Continue to monitor income levels and impact on business plan. Current performance has exceeded business plan targets; performance will be closely monitored for the rest of the financial year.
Capital receipts in the	Possible	Medium	Currently £1.1m receipts have

areas identified are insufficient to meet target			been received with a further £4.8m expected.
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4 STATUTORY CONSIDERATIONS

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 2019 through the Budget setting process.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

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

6.2 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.

7 CLIMATE CHANGE

7.1 With the exception of any virements for approval listed in Appendix 3(i), this is an information only report about the Council's financial performance against budgets set for April 2019 to July 2019, and therefore does not include any decisions that have a direct impact on Climate Change.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

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

9.2 Consultation was carried out at meetings and via e-mail.

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Background	<i>None</i>

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