Decision Report – Cabinet
– 23 January 2019

Revenue Budget Monitoring Update

Cabinet Member(s): Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member(s): All
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	Cabinet Member	Mandy Chilcott	14 Jan 19
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	Relevant Scrutiny Chairman	Cllr Anna Groskop for Scrutiny Place	10 Jan 19
Forward Plan Reference:	FP/18/11/07		
Summary:	It is notable that this report outlines, for the first time in this financial year, a projected revenue outturn underspend for 2018/19; of £0.921m. This projection is based upon actual spending to the end of November 2018 (month 8) and compares to the available budget of £317.882m. The last reported projection, based on spend to the end of October, was an overspend of £2.368m. The contingency has a residual sum of £3.382m uncommitted at this stage. The main change between the month 7 and month 8 projections is that a revised approach to the calculation of the Minimum Revenue Provision (MRP) has been applied, taking		

	advantage of new and more flexible regulations. The MRP is a provision made in the accounts for the repayment of long term debt when it becomes due. The revised calculation has reduced the budget required for MRP by £4.178m in 2018/19. It is, however, important to recognise that the adoption of the MRP approach for 2018/19 (and future years) is subject to formal consideration by the Council in February 2019; should this approach not be approved at that time then the impact on the projected outturn for 2018/19 will need to be reassessed. Controlling the 2018/19 budget has been a priority of the Council for several months and is it welcome that the focus and efforts are producing the benefit of a projected underspend. This is particularly important considering the challenging financial position the Council must address from 2019/20 onwards to ensure a financially sustainable position. Delivering robust control of current spending is essential to laying the foundations for managing a challenging budget for 2019/20. In addition, producing an underspend in 2018/19 will enable a partial replenishment of the reserves, which will improve the resilience of the Council and hence its ability to address the financial uncertainties beyond 1 April 2020. This report is only a summary, highlighting the main differences between month 7 and month 8; more detail will be presented in the next quarterly report.
Recommendations:	**It is RECOMMENDED that the Cabinet:** **1. comments upon the contents of this report and particularly notes the progress being made with controlling the budget for 2018/19, including the intention to partially replenish earmarked and General Fund reserves to improve the resilience of the Council for future years;** **2. supports the use for urgency and agrees the expansion of the Capital Investment Programme to incorporate the recently announced additional funds from the Department for Transport for Local Highways Maintenance.** **3. Delegates to the Council's Chief Finance (S151) Officer, in consultation with the Cabinet Member for Resources, the authority to sign a new Building Schools for the Future Public Finance Initiative (PFI) contract on behalf of the Council if the evidence shows that it will be a long-term benefit to the Council. See paragraph 2.9** **Note – the Chair of Scrutiny Committee for Policies and Place has agreed the case for urgency for the decision relating to recommendation 2 to enable that decision to**

	be taken by Cabinet and reported to the next meeting of Full Council.
Reasons for Recommendations:	Preparing a coherent, confident and realistic budget for the County Council is essential to ensure that the corporate plan and service delivery priorities of the Council can be achieved, and that financial sustainability can be secured. Furthermore, closely monitoring spend against the agreed budget is necessary to ensure that the Council delivers its priorities within its means. This report requires action to be taken so that this objective can be met. The recently announced funding from the Department for Transport for Local Highways Maintenance implies an alteration to the approved Capital Programme, upon which a decision must be made. A decision is now required so that the Council can make use of this welcomed additional funding. Alterations to the approved Capital Programme are for Full Council to agree but there is provision in the Constitution for decisions to be taken urgently where it is not practical to convene or wait for a Full Council meeting. In this instance the approval of the Chair of the relevant Scrutiny Committee is required. There is an investigation ongoing into the potential benefits of refinancing the Building Schools for the Future project, which, if advantageous, may require a final decision to be made in a very short timeframe.
Links to County Vision, Business Plan and Medium Term Financial Strategy:	The Medium Term Financial Plan (MTFP) sets the funding for the County Vision and the use of those funds is then monitored, via this report, throughout the year to ensure delivery of Council objectives and actions within the resources available.
Consultations and co-production undertaken:	Information and explanations have been sought from directors on individual aspects of this report and their comments are contained in the report. Due process and consultations will be carried out where required for any further specific proposals for change.
Financial Implications:	The financial implications are identified throughout the report.
Legal Implications:	There are no specific legal implications arising from this report.

<table>
<tr><td>HR Implications:</td><td colspan="6">There are no HR implications arising directly from this report, but remedial actions may have such implications. These will be dealt with in any subsequent reports.</td></tr>
<tr><td rowspan="2">Risk Implications:</td><td colspan="6">Our corporate risk register recognises the risk to containing spend within budget in the face of service pressures, reducing funding and the challenges of delivering ever more savings and efficiencies.

As winter approaches and economic uncertainty continues, there are several budgets which may see demands vary at short notice leading to adverse variations late in the financial year. These include: highways and emergency costs, transport and waste volume costs. Although social care costs are also often impacted by winter, the Government have recently announced additional winter funding to mitigate these. To an extent further mitigation to spend volatility would be possible through the Council’s corporate contingency.

Although broader market uncertainty exists in view of the current Brexit negotiations, at this stage any precise implications are not known. The Council needs to be alert to potential implications as negotiations develop and respond accordingly at the time.

The Children’s Services budget has now been rebased but remains under pressure. The risk of further overspending continues to be mitigated by an improved understanding of the budget, better and more timely monitoring information and improved control of expenditure within the service.

As noted within the text, this projection depends on the Council’s approval of the revised MRP Policy; should this approval not be given then the reduced spend projected would need to be reversed. In addition, there is the potential that the external auditors may challenge the approach as the accounts for 2018/19 are prepared and audited.

This Organisational Risk (00043) has a broad perspective, encompassing both current year spending and future years’ budgets. Hence, while the projected outturn position has improved, it is still not appropriate for the “likelihood” score to be reduced at this time given that there are more steps in the democratic process to resolve the budget for 2019/20.</td></tr>
<tr><td>Likelihood</td><td>5</td><td>Impact</td><td>5</td><td>Risk Score</td><td>25</td></tr>
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Other Implications (including due regard implications):	**Equalities Implications** There are no specific equalities implications arising from the contents of this report. **Community Safety Implications** There are no community safety implications arising from the contents of this report. **Sustainability Implications** There are no sustainability implications arising from this report. **Health and Safety Implications** There are no health and safety implications arising from this report. **Privacy Implications** There are no privacy implications arising from this report. **Health and Wellbeing Implications** There are no health and wellbeing implications arising from this report.
Scrutiny comments / recommendation (if any):	This report will be presented to Scrutiny for Policies and Place Committee, also on 23rd January 2019; comments arising will be made available to the Cabinet at a subsequent meeting.

1. Background

1.1. Since 2010, the Council has delivered savings and efficiencies of around £143m and closely controlled its revenue and capital budgets to ensure it meets its duty to ensure expenditure does not exceed resources available. In September 2018 the Cabinet accepted proposals for change across a range of budgets to address the then projected overspend for the current financial year.

1.2. Consultation with other bodies was necessary before some of these agreed actions could be implemented. These consultations have now been concluded and means that all the agreed actions from the September Cabinet have now been reflected in the budget monitoring forecast.

1.3. A detailed review of the contingency, has identified that the sum remaining uncommitted at the end of November is £3.382m. This balance remains unallocated at this time; consideration as to how and when it can be released to contribute to the general revenue budget underspend will be given in the quarter 3 monitoring report (due to be presented to the Cabinet meeting in February 2019).

1.4. This report shows that there is a projected underspend of £0.921m, compared to the recently reported projected overspend.

1.5. The table showing the projected outturn, and variances from month 8, are set out in Appendix A. The paragraphs below offer short explanations of the major parts of those variances.

1.6. In the Government's November Budget, the Chancellor of the Exchequer announced an additional £420m of funding for Local Highways Maintenance for the current financial year. The allocation to Somerset County Council is £9.98m and plans are being finalised to spend this sum. As this is a change to the Capital Programme then formal approval of the change is required.

Alterations to the approved Capital Programme are for Full Council to agree but there is provision in the Constitution for decisions to be taken urgently where it is not practical to convene or wait for a Full Council meeting. The Chair of Scrutiny Committee for Policies and Place has agreed the use of urgency for this proposed decision to alter the approved Capital Programme to incorporate this additional funding.

The allocation of the additional funding received will be a matter for the relevant SLT Director in consultation with the Director of Finance.

2. Key Variances

2.1. Children's Services *(Net budget £86.508m, £1.062m projected overspend, a favourable movement of £3.739m since month 7)*

The budget benefits arising from the changed Minimum Revenue Provision (MRP) policy, £4.178m, explained further in the Non-service paragraphs 2.5 below, have been added to the Children's Services base budget from month 8, taking the service base budget from £82.330m to £86.508m. This compares to the rebased budget £88.635m that is assessed to be a realistic budget for the service, hence an overspend is still shown. Against this revised base budget, the projected variance is explained in the paragraphs below.

It is also worth commenting on the current forecasts for the Dedicated Schools Grant (DSG) which is ring-fenced and not currently a liability for the Council. The current position shows a total overspend at the end of the year of £5m with the main area of pressure in High Needs. The Department for Education allocated an additional amount of grant for both 2018/19 and 2019/20 to help address some of the pressures seen nationally although this is not sufficient to meet the current pressures. This additional grant for Somerset in 2018/19 was £1.171m and has been included in the forecast deficit outturn. To help support the recovery of the pressures on the high needs budget a request has been made to the Secretary of State to transfer funds from the school's block element of the DSG to the high needs block in 2019/20. The government is adopting new reporting requirements where LA's are forecasting DSG overspends of more than 1% of the gross annual budget. The Authority on behalf of Schools Forum will need to submit a detailed report to the Secretary of State at the end of the financial year, with a 3-year plan showing how the Authority and Forum intend to balance the DSG during this timescale.

Children & Learning Central Commissioning: favourable £0.478m; movement adverse £0.228m

The Home to School transport projected position showed an increased overspend by £0.308m, the majority of which was due to 3 significant route costs not being included on previous Capita reports. Because of this Transporting Somerset will check and validate the data held in Capita to ensure future forecasts are not adversely affected.

Further savings, mainly due to staff leaving the service earlier than anticipated increased the Getset underspend by £0.058m.

Children & Families Operations: adverse £1.540m; movement favourable £3.967m

As well as the budget movement of £4.178m from Non-service to Children's Services due to the revised MRP policy, projected expenditure on external placements has increased by £0.171m due to an increase in secure costs and extended remand and semi-independent placements for 16 and 17-year olds.

As the year has progressed there is greater level of certainty of the forecast of Children's Social Care transportation costs taking account of the volatility of this budget area. As a result, there is an additional pressure of £0.170m now being reported.

This increase has been offset in part by reductions across the service, in particular staffing costs where vacancies are being held.

2.2. Adults Services *(Net budget £133.829m, £0.000m projected on budget, a minor variance of £0.001m since month 7).*

Adult Services: on budget £0.000m movement adverse £0.001m

Since period 7 there is no significant change in the final variance for Adult Services. Previous projections had included a planned £1.000m for allocation for winter, based on previous years and predicted increases in activity and support required. As such some of the schemes were already in place and funded prior to the announcement of additional government funding, thereby releasing the projected spend. Monitoring of the spend against the £2.5m winter pressures funding is via monthly return to central government and NHS England.

Learning Disabilities is now also forecasting a positive variance due to a reduction of £0.500m of costs associated with previously assumed contractual transformational costs.

It is planned to use both positive variances (£1.500m in total) to reduce the balance on the Learning Disabilities equalisation reserve, which will have an equal, beneficial effect on the General Fund reserve, hence improving the Council's resilience as shown on its balance sheet.

This month has also seen some small increases in placements for Mental Health, which have been offset by a reduction in salary spend. Within Learning Disabilities, there has been a small reduction within homecare and two backdated funding agreements for Continuing Health Care (CHC) packages, which have been offset against the recalculation of joint funding.

2.3. **Public Health** *(Net budget £0.928m, £0.500m projected underspend, no movement since month 7).*

Public Health: favourable £0.500m: no movement £0.000m

The Public Health budget is made up of two elements. The ring fenced Public Health Grant (£20.723m), which is projected to be fully spent, and £1.098m of Somerset County Council funding. The projected underspend against the County Council element of this money continues to be £0.500m.

2.4. **Economy and Community Infrastructure** *(Net budget £64.843m, £1.852m projected underspend, an improvement of £0.653m since month 7).*

Economy & Community Infrastructure: favourable £1.817m movement; favourable £0.618m

Economy and Community Infrastructure's (ECI) forecast has improved by £0.618m resulting in an underspend position of £1.817m.

There are a number reasons for the increased underspend in ECI. An increase in throughput in the Highways Term Maintenance Contract is forecast to result in an increased rebate, the current estimate is an increase of £0.072m. Traffic Management and Parking income levels are higher than anticipated (£0.287m movement). Waste tonnages remain low and to date are 2.6% down on the same period last year. The forecast now assumes tonnage trends will be lower than the budgeted 1.5% annual growth (£0.107m movement). Transporting Somerset reported an underspend during this period following a review of Concessionary Fares, County Ticket and contract bus subsidies. The review was undertaken to ensure accurate forecasting (favourable movement of £0.108m).

There are still several factors that may change forecasts including winter and emergency costs, any upturn in waste volumes and Concessionary Fares. For example, last year's late and severe weather conditions resulted in additional costs of over £0.500m in Highways.

2.5. Corporate and Support Services *(Net budget £21.241m, £0.255m projected overspend, an improvement of £0.055m since month 7).*

Corporate and Support Services: adverse £0.255m; movement favourable £0.055m

Corporate and Support Services is showing an overspend of £0.255m. This is an improvement of £0.055m from the month 7 position.

This is due to reductions in forecasts within Commercial and Procurement (-£0.039m movement) from in year vacancies and reduced legal costs. HR & OD (-£0.030m movement) due to the increased underspend reported within Adults L&D due to anticipated spend on the Grow Your Own social work programme not being realised because of student deferment and recent reviews decisions (in terms of essential/critical tasks) to support the ongoing financial imperative situation. The underspend in Legal Services has reduced due to increased expert's fees and Coroners pathologists costs (+£0.030m movement). There are also a few other small downward movements from month 7.

2.6. Non-Service *(Net budget £10.533m, £0.770m projected overspend, an adverse movement of £0.122 since month 7).*

Non-Service: overspend adverse £1.770m; movement adverse £1.122m

There is an adverse movement of £1.122m which includes:

- An MRP saving of £0.154m (reported in non-service in month 7) that has been allocated to children's services, as part of the month 8 additional re-base; and a favourable variance of £0.023m as the net saving from repaying one of our market loans early (£0.069m interest saving less the £0.046m amortised annual charge for the loan premium we had to pay as part of the extinguishment); and
- A £1.000m contribution to the general reserves fund as per section 2.7 below that had not been budgeted for.

There has been a significant change in approach to the Minimal Revenue Provision (MRP), as mentioned in the summary above. Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended], local authorities are required to charge a MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'.

An underpinning principle of the local authority financial system is that all capital expenditure must be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The strategic aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement (CFR) and ensure enough provision has been put aside to repay outstanding debt when it falls due. In doing so, the Council is required to align the period over which it charges MRP to one that is commensurate with the period over which the capital expenditure provides benefit. To ensure compliance with the new requirements, the plan is to adopt an MRP policy comprising two distinct sections; 1) a charge based on the useful economic life of loans-funded capital expenditure; and 2) an additional incremental charge each year to ensure the provision has enough put aside to repay debt when it falls due. It should be noted that as the debts are repayable at the full term, having a different MRP profile, with lower earlier payments, does not incur additional interest charges for the Council.

This revised MRP policy is yet to be formally adopted by members, going to Audit Committee for scrutiny in January 2019 and onwards to full Council in February 2019 for decision.

This revised MRP policy will result in a cost of £1.439m for the financial year-ending 31st March 2019, which represents a reduction of £4.349m when compared to the original 2018/19 budget (of £5.788m) based on the old methodology. Of this favourable variance, £0.171m has already been reported at Month 4 (and included in the MTFP2 rebase) with the remaining £4.178m being allocated to Children's services during Month 8 as an additional re-base.

As the full saving has been allocated to Children's services, there is no impact to Non-Service of the revised charge in Month 8.

2.7. Trading Units: *(Net budget £0.00m, £0.000m projected outturn position, no movement since month 7).*

Dillington House: adverse £0.250m: movement adverse £0.073m

Dillington House is forecast to overspend by £0.250m in 2018/19. This includes the repayment costs of a long-term outstanding loan (£0.170m per annum) that was used for capital works to improve conference facilities at the venue and because of reduced levels of income for the first 8 months of the year. This will be added to existing deficit held in an earmarked reserve bringing the total to £1.135m. Work is under way to develop a business plan that brings the operation into profit and sets out repayment proposals for the accumulated deficit.

Support Services for Education: favourable £0.278m: movement favourable £0.067m

Increased traded income and vacancy savings across SEN Services and Central Support have resulted in an increased surplus of £0.067m.

2.8. Improving Financial Resilience

As mentioned in the month 7 report, opportunities will be sought to use 2018/19 underspends to partially replenish reserves to strengthen the balance sheet and hence improve the financial resilience of the Council. This is especially important given that the financial outlook for 2020/21 is not yet known and reserves may be required to absorb any shocks from unexpectedly poor financial settlements for future years. This projection assumes that a further £1.000m will be added to the General Fund reserve during 2018/19, in addition to the planned contribution of £2.000m.

As part of the provisional Local Government Finance Settlement received on 18 December 2018, it was announced that the Government is to distribute to local authorities an excess sum that they had top sliced as part of the National Non-Domestic Rates levy arrangements, £180m nationally. The county has been notified that the value for Somerset County Council is £1.031m and this is expected to be paid to the Council in 2018/19. Any further relevant details will be reported in the Quarter 3 monitoring report, alongside the proposed application.

2.9. Building Schools for the Future – Private Finance Initiative Refinance Opportunity

Somerset County Council has an existing Private Finance Initiative under Building Schools for the Future. This commenced in 2011 and was established over 25 years. Formal contracts and management are in place. The outstanding liability on the existing agreement will be £43.3m at March 2019. Recently a number of authorities have achieved financial savings through refinancing such arrangements to take advantage of the current low interest rates. The existing contract provides for such activity and SCC wishes to take the benefit of such an opportunity if one arises.

It is expected that options for a new deal could be available to the Council in the coming weeks but due to the nature of these financing arrangements, which alter according to daily changes in the finance markets, the Council would need to act quickly. As a result, it is proposed that the Chief Finance (S151) Officer in consultation with the Cabinet Member for Resources be delegated with the authority to sign a new PFI contract subject to a conclusion that it will be in the long-term benefit to the council.

3. Options considered and reasons for rejecting them

3.1. There is no alternative but to undertake effective and thorough budget monitoring to follow through with appropriate actions to address any variances.

4. Background Papers

4.1. Month 7 Revenue Budget Monitoring report to Cabinet – 19 December 2018.

Appendix A – Revenue Budget Monitoring month 8 – Headline Summary Table

Service	Original Base Budget	Budget Movements	Total Budget Approvals	Negative (+) Variances	Positive (-) Variances	Planned Use of Earmarked Reserves	Planned Use of Capital Receipts Flexibility	Net Variance Under (-) / Overspend		Previous Cabinet Report *	Movement from Previous Report
	£m	£m	£m	£m	£m	£m	£m	£m	%	£m	£m
Adults and Health	141.284	-7.455	133.829	8.892	-7.835	1.500	-2.557	**0.000**	0.00%	-0.001	0.001
Children and Families - Operations	46.279	15.346	61.625	3.031	-1.441	0.000	-0.050	**1.540**	2.50%	5.507	-3.967
Children and Learning - Commissioning	19.750	5.132	24.882	0.603	-0.766	-0.197	-0.118	**-0.478**	-1.92%	-0.706	0.228
Public Health (SCC funding)	1.026	-0.098	0.928	0.000	-0.500	0.000	0.000	**-0.500**	-53.88%	-0.500	0.000
ECI Services	66.745	-1.902	64.843	5.300	-4.672	-1.657	-0.788	**-1.817**	-2.80%	-1.199	-0.618
Key Services Spending	**275.084**	**11.023**	**286.107**	**17.826**	**-15.214**	**-0.354**	**-3.513**	**-1.255**	**-0.44%**	**3.101**	**-4.356**
Corporate and Support Services	20.106	1.135	21.241	4.584	-3.108	1.283	-2.504	**0.255**	1.20%	0.310	-0.055
Non-Service Items (Inc Debt Charges)	22.692	-12.158	10.534	1.904	-0.134	0.000	0.000	**1.770**	16.80%	0.648	1.122
Trading Units	0.000	0.000	0.000	0.462	-0.490	0.028	0.000	**0.000**	0.00%	0.000	0.000
Support Services and Corporate Spending	**42.798**	**-11.023**	**31.775**	**6.950**	**-3.732**	**1.311**	**-2.504**	**2.025**	**6.37%**	**0.958**	**1.067**
Updated Business Rates Receipts	0.000	0.000	0.000	0.338	-2.029	0.000	0.000	**-1.691**	0.00%	-1.691	0.000
SCC Total Spending	**317.882**	**0.000**	**317.882**	**25.114**	**-20.975**	**0.957**	**-6.017**	**-0.921**	**-0.29%**	**2.368**	**-3.289**

Original Base Budget = Budget set by the Council on 21 February 2018
Budget Movements = Transfers between services, not affecting the total budget for 2018/19
Total Budget Approvals = Revised budget after movements
Positive variance = one that improves the projected outturn position
Negative variance = one that deteriorates the projected outturn position.