

Decision Report – Cabinet
Decision date – 20 March 2019

Revenue Budget Monitoring Update

Cabinet Member(s): Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member(s): All
Lead Officer: Sheila Collins, Director of Finance
Author: Sheila Collins, Director of Finance
Contact Details: 01823 359028

	Seen by:	Name	Date
	County Solicitor	Honor Clarke	
	Monitoring Officer	Scott Wooldridge	
	Corporate Finance	Sheila Collins	
	Human Resources	Chris Squire	
	Property	Paula Hewitt / Claire Lovett	
	Procurement / ICT	Simon Clifford	
	Senior Manager	Sheila Collins	
	Commissioning Development Team	commissioningdevelopments@somerset.gov.uk	
	Local Member(s)	All	
	Cabinet Member	Mandy Chilcott	
	Opposition Spokesperson	Liz Leyshon	
	Relevant Scrutiny Chairman	Cllr Anna Groskop for Scrutiny Place	
Forward Plan Reference:	FP/19/02/04		
Summary:	<p>This report outlines, a projected revenue outturn underspend for 2018/19; of £1.385m. This projection is based upon actual spending to the end of January 2019 (month 10) and compares to the available budget of £317.882m. The last reported projection, based on spend to the end of December 2018, was an underspend of £1.067m. The contingency has a residual sum of £1.788m uncommitted at this stage and is very likely to contribute to further underspending at the year end.</p> <p>Controlling the 2018/19 budget has been a priority of the Council since a projected overspend became apparent in early 2018. The robust control is now producing a more optimistic</p>		

	<p>landscape for the Council, with this projected underspend laying the foundations for a resilient budget and improved reserves for 2019/20. In light of this, opportunity has been taken to review the strategic risk, ORG0043, to reduce both the likelihood and impact ratings, as shown below.</p> <p>This report is only a summary, highlighting the main differences between month 9 and month 10; more detail was presented in the Quarter 3 report and will be presented in the outturn report.</p>
<p>Recommendations:</p>	<p>It is RECOMMENDED that the Cabinet:</p> <ol style="list-style-type: none"> 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 reserves to improve the resilience of the Council for future years; 2. notes the additional uses of the revenue contingency budget (£0.212m); 3. notes the potential for specific carry forwards where funds have been received in advance of need or are unspent against specific projects. 4. Supports the use for urgency and agrees to set the Council's net budget requirement for 2018/19 (Revenue Budget) as £317,881,900 (see section 1.7) <p>The Chair of Scrutiny Committee for Policies and Place has agreed the case for urgency for the decision relating to recommendation 4 to enable that decision to be taken by Cabinet and reported to the next meeting of Full Council.</p>
<p>Reasons for Recommendations:</p>	<p>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.</p> <p>There is a need for the net budget requirement to be finalised ahead of the end of the financial year. Alterations to the approved Revenue Budget are reserved 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. The proposed change to the net revenue budget aligns to the budget monitoring reports which have been reported to Cabinet and various committees throughout 2018/19 and it is therefore considered to be a technical amendment. Officers advise that it is not considered practical to convene a special meeting of</p>

	<p>the Council ahead of the end of the financial year and the next scheduled Full Council meeting is not until mid May which is after the 2018/19 financial year has ended.</p>
<p>Links to County Vision, Business Plan and Medium Term Financial Strategy:</p>	<p>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 and others throughout the year to ensure delivery of Council objectives and actions within the resources available.</p>
<p>Consultations and co-production undertaken:</p>	<p>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.</p>
<p>Financial Implications:</p>	<p>The financial implications are identified throughout the report.</p>
<p>Legal Implications:</p>	<p>There are no specific legal implications arising from this report.</p>
<p>HR Implications:</p>	<p>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.</p>

Risk Implications:	<p>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.</p> <p>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.</p> <p>The Children’s Services budget, while rebased, remains under pressure as the Service continues to improve and due to the sensitivity of some aspects of the services to volume changes, especially placements.</p> <p>The Organisational Risk (00043) has a broad perspective, encompassing both current year spending and future years’ budgets. On the risk register it is framed as: Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don’t set a balanced budget for 2019/20. Risk that we don’t have a short and medium term financial plan for SCC.</p> <p>Given that the projected outturn position has improved and a balanced budget has been set for 2019/20 (at the Council meeting on 20 February 2019), this risk has been reviewed. It is judged that the likelihood has reduced from 5 (very likely; >75% chance of occurrence) to 4 (likely; >50 to 75% chance of occurrence; likely to happen within the next 1-2 years). Given the unknown funding arrangements for 2020/21 then it is considered inappropriate to reduce the likelihood score further at this time.</p> <p>In terms of impact, it is considered that it has reduced from 5 (complete failure to deliver a strategic priority or opportunity) to 4 (major impact, positive or negative, on a strategic priority).</p> <p>This combination of scores still leaves the risk as “red” – “very high”, but is showing a positive direction of travel without allowing any room for complacency. The financial situation is still vulnerable to increased demand or poor management. Robust control must be maintained.</p>				
	Likelihood	4	Impact	4	Risk Score

Other Implications (including due regard implications):	<p><u>Equalities Implications</u></p> <p>There are no specific equalities implications arising from the</p>
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	<p>contents of this report.</p> <p><u>Community Safety Implications</u></p> <p>There are no community safety implications arising from the contents of this report.</p> <p><u>Sustainability Implications</u></p> <p>There are no sustainability implications arising from this report.</p> <p><u>Health and Safety Implications</u></p> <p>There are no health and safety implications arising from this report.</p> <p><u>Privacy Implications</u></p> <p>There are no privacy implications arising from this report.</p> <p><u>Health and Wellbeing Implications</u></p> <p>There are no health and wellbeing implications arising from this report.</p>
<p>Scrutiny comments / recommendation (if any):</p>	<p>This report will be presented to Scrutiny for Policies and Place Committee, also on 5th April 2019; comments arising will be made available to the Cabinet at a subsequent meeting.</p>

1. Background

- 1.1. The Council continues its journey to tighten control of its revenue budget; it has maintained the projected underspend that was reported last month while further replenishing earmarked reserves. Overall, the Council's resilience is much improved since the Cabinet made its budget resolutions in September 2018 and the prospects for 2019/20 are encouraging.
- 1.2. Robust monitoring of the revenue budget and particularly of the proposals for change agreed in both February and September 2018 have significantly aided the improvements described in this report.
- 1.3. A forecast underspend of £1.385m is now projected, as shown in Appendix A of this report and described in the paragraphs below. This reflects the continued focus by services on managing budgets. Whilst an encouraging position, it is important to recognise that there are significant financial challenges faced by the Council beyond the current year, meaning it is essential to also focus on securing the Council's long term financial resilience through holding adequate reserves and contingencies.

- 1.4. Within the service forecasts there are elements of funding that have been received, such as grants, where the full spend is not expected by the end of the year or where spend against specific projects will not be complete. This results in a forecast underspend; however, due to the nature of the funding being for specific purposes or projects it is anticipated that this funding will be requested to be carried forward into the new year. This will be included within the outturn report that is due to be considered by Cabinet in June.
- 1.5. In addition to the underspend described above, the contingency budget has £1.788m uncommitted as at the end of January. If it remains unallocated at the year-end then it will further add to the projected underspend.
- 1.6. The table showing the projected outturn, and variances from month 9, are set out in Appendix A. The paragraphs below offer short explanations of the major parts of those variances.
- 1.7. As part of preparations for the Statement of Accounts we have identified that £1m of Collection Fund surplus was incorrectly accounted for in the setting of the net revenue budget for 2018/19. This surplus forms part of the overall financing of the authority and should not be included within the Net Budget Requirement which as a result should have been reported as £317,881,900. The proposed change to the net revenue budget aligns to the budget monitoring reports which have been reported to Cabinet and various committees throughout 2018/19 and it is therefore considered to be a technical amendment. This error does not impact any other part of the budget setting process or any other financial reporting.

2. Key Variances

- 2.1. **Children's Services** (*Net budget £86.447m, £1.182m projected overspend, an adverse movement of £0.182m since month 9*)

Children & Learning Central Commissioning: favourable £0.624m; movement favourable £0.022m

The service has been successful in a bid for grant funding for reducing parental conflict to support the Troubled Families programme. Notification has been received that this will be allocated in year for costs to be incurred during 2019/20. A request will be made at outturn to carry this funding forward for use next year in addition to the carry forward reported in Quarter 3 in regard of the West Somerset Opportunities Area (WSOA) grant

Children & Families Operations: adverse £1.806m; movement adverse £0.204m

The Children's Service has made good progress in 2018/19 in regard of controlling the costs of placements. Gross savings of £1.641m have been made, but these have been offset by additional spend of £1.201m as new and more expensive placements have arisen. Further activity continues in 2018/19 and will continue into 2019/20 to seek to reduce costs further. Progress of the improvements will be monitored and reported through the Children's

Transformation Board and will form part of budget monitoring report throughout the year.

Meanwhile, in month 10 sufficiency issues in the external placements market and the complexity of need of looked after children has resulted in an additional 5 external residential placements being made in a short period of time. This has increased projected costs by £0.276m. The costs of parent and child placements has also increased due to decisions made by the courts, which are beyond our control. These have resulted in extended placements at an increased projection of £0.071m.

These costs have been offset in part by further vacancy savings, additional grant income and efficiencies across the service of £0.143m.

2.2. Adults Services (*Net budget £133.623m, £0.000m projected on budget, no change from month 9*).

Adult Services: on budget £0.000m; movement £nil

There have been two notable, favourable movements in the anticipated outturn figures, although there are plans for applying these further underspends hence the projection is for no change from month 9.

The first change is that further efficiencies have been achieved through the latest contract change in Discovery, which do not impact on access to services or the delivery of services to clients. It is proposed that the resultant underspend will be attributed to the outstanding balance (£0.910m) on the equalisation reserve, reducing it to £nil. (£4.000m was reported in month 9).

Secondly, the service is requesting that the in-year underspend against the Winter Pressures grant (£1.600m) and a small surplus from the iBCF (£0.330m) be ringfenced into an Adult Social Care reserve. This will be used to support ongoing system pressures during 2019/20. Given the joint oversight of these funds with the Clinical Commissioning Group (CCG), this is a prudent way forward.

In addition to the above two movements, Adult Social Care has seen a reduction in projection since the previous report of £0.156m, which mainly as a result of redirected funding to offset increased costs following the change in Extra Care Housing provider. There was also a small reduction in the projected cost of equipment through the Integrated Community Equipment Service.

The Mental Health service has continued the upward trend that has been seen throughout the year with an increase of £0.208m. There are seven new residential placements being reported this month as well as additional staffing costs. The increasing demand for residential placements is a major concern for 2019/20 when the full year effect of these costs will be seen.

There have been a number of changes within the Learning Disabilities budget,

but all these add up to just a very small increase of £0.014m. There was one new placement made and a loss of CHC funding for one person, however these were offset by CHC funding being awarded for three Supported Living clients.

- 2.3. Public Health** (*Net budget £0.961m, £0.580m projected underspend, no movement since month 9*).

Public Health: favourable £0.580m; movement £nil

Although the Public Health underspend has grown to £700k, the reported underspend remains at £0.580m and the service will request that £120k be transferred into the earmarked reserve at year end to fund transition costs to bring Public Health Nursing in house. The IT costs in particular are likely to be significant so the additional funding for 19/20 would support a smoother transition of service.

- 2.4. Economy Community and Infrastructure** (*Net budget £64.796m, £2.585m projected underspend, an improvement of £0.404m since month 9*)

Economy & Community Infrastructure: favourable £2.585m; movement favourable £0.404m

Economy Community and Infrastructure's (ECI) forecast has improved by £0.404m resulting in a projected underspend of £2.585m at month 10.

There are a number of reasons for the increased underspend within ECI. Traffic Management's underspend has increased further (-£0.232m favourable movement) since month 9. This is due to the continuing increase in Traffic Engineering income, bus gate income and a reduction on Traffic Control works expenditure. The underspend on the Highways budget has also increased since month 9 (- £0.170m favourable movement). This is due to a reduction in Highway Lighting energy costs as a result of there being a change to the rate charged during the evening. This was in part offset by an increase in winter service costs due to the recent adverse weather.

There is also an increased underspend in Community and Traded Services (-£0.003m favourable) as a result of the finalisation of the County Ticket payments, in part offset by a reduction in income within Scientific Services.

Somerset Waste Partnership's underspend has reduced since month 9 (+£0.066m adverse movement) as a result of tonnage figures, however tonnages remain low and the forecast assumes these tonnage trends will continue for the rest of the year. Any un-spent funding for the Recycle More project may be requested to be carried forward at year end.

Property Services are reporting a favourable movement (-£0.051m) due to reduced property rationalisation costs, savings on central accommodation costs and contract cleaning.

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 £21.158m, £0.069m projected overspend, an improvement of £0.052 since month 9*)

Corporate and Support Services: adverse £0.069m; movement favourable £0.052m

Corporate and Support Services is showing an overspend of £0.069m. This is an improvement of £0.051m since month 9.

This is due to a number of movements within Corporate and Support Services. There is a favourable movement in Communications (-£0.010m) as a result of staffing vacancies that will not be filled until 2019/20. Customers and Communities also have a favourable movement (-£0.013m) mainly due to further savings from the Community Development fund offset in part by the cost of having to replace inferior headsets in customer contact. The additional cost of Centre for Public Scrutiny work has resulted in an adverse movement in Community Governance (+£0.010m). The Legal budget is reporting an adverse movement from month 9 (+£0.036m) due to the use of external legal support. Projections have been amended within Finance to reflect the vacancies that will not be filled until 2019/20 due to recruitment difficulties (-£0.036m favourable movement). There is a small element of grant funding from the LGA within the Finance Service which may be requested to carry forward at year end to support the continued Budget Management training programme for all services. The ICT budget is projecting to be further underspent (-£0.036m favourable movement) due to a reduction in telecoms projections and staffing costs.

2.6. Non-Service (*Net budget £10.879m, £2.001m projected overspend, an adverse movement of £0.205 since month 9*).

Central Redundancies: adverse £0.220m; movement £nil

Based on the average figure for redundancies so far this year, and before any redeployment of staff who may be at risk there is a forecast overspend of £0.220m on this budget. This figure does not yet include any decisions that are made in this financial year for the 2019/20 budget, and the individual amounts of redundancy payments due will depend on the individuals leaving the organisation.

Discontinued Services: adverse £0.065m; movement £nil

The first eight months charges from the Pensions Fund for Compensation of Loss of Office (CLO) have now been processed. The overall inflationary increase is now projected to exceed the reducing cost of individuals concerned by £0.065m.

Investment Income: favourable £0.200m; movement favourable £0.030m

Due to a better than expected return on investment, the Council is anticipating additional income of £0.200m.

Use of Contingency: movement adverse £0.212m

As at the Quarter 3 report, £2m remained uncommitted from the contingency. New commitments have arisen during month 10 including £0.200m for the iAero Programme and £0.012m for Centre for Public Scrutiny review of Scrutiny arrangements in Somerset County Council.

2.7. Trading Units: (Net budget £0.00m, £0.000m projected outturn position, no movement since month 9).

Dillington House: adverse £0.488m; movement £nil

Income levels across the main areas of activity are now forecast to come in below the levels budgeted. This is due to significant reductions from weddings arising from the post of Wedding Co-ordinator being vacant during the last year. Adult education courses are reduced due to a degree of duplication/repetition in the programme, a decline in take up from existing customers and as yet no diversification of the programme offer or widening of the customer base. Conference bookings from SCC have decreased by over £0.060m in the last year due to the wider Financial Imperative. Additional income has been secured from other areas such as a wider social events programme and conferences bookings by external organisations. This is not sufficient to offset the reductions elsewhere.

Unfortunately, the impact from developments taking place as part of the revised business plan will not be seen until next financial year, e.g. enabling customers to book Bed and Breakfast accommodation on line through external booking agencies and increasing exposure through wedding fairs, refresh of the education programme, etc. These are deep rooted issues which will take more time to address.

Support Services for Education: favourable £0.325m: movement favourable £0.031m

Vacancy savings within Business Services have resulted in an increased surplus.

2.8. Improving Financial Resilience

As mentioned in recent monitoring reports, 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 £0.910m will be added to the outstanding balance on the LD equalisation reserve during 2018/19, thereby eliminating the negative balance.

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 9 Revenue Budget Monitoring report to Cabinet – 19 February 2019.

Appendix A – Revenue Budget Monitoring month 10 – 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	-7.661	133.623	9.271	-13.577	6.840	-2.534	0.000	0.00%	0.000	0.000
Children and Families - Operations	46.279	15.589	61.868	3.765	-1.862	0.000	-0.097	1.806	2.92%	1.602	0.204
Children and Learning - Commissioning	19.750	4.829	24.579	0.736	-1.868	0.574	-0.066	-0.624	-2.54%	-0.602	-0.022
Public Health (SCC funding)	1.026	-0.065	0.961	0.000	-0.700	0.120	0.000	-0.580	-60.35%	-0.580	0.000
ECI Services	66.745	-1.950	64.796	4.888	-5.744	-0.967	-0.762	-2.585	-3.99%	-2.182	-0.404
Key Services Spending	275.084	10.743	285.827	18.660	-23.751	6.567	-3.459	-1.983	-0.69%	-1.762	-0.222
Corporate and Support Services	20.106	1.052	21.158	4.703	-3.385	1.244	-2.493	0.069	0.33%	0.121	-0.052
Non-Service Items (Inc Debt Charges)	22.692	-11.795	10.897	2.947	-1.196	0.000	0.000	1.751	16.07%	1.796	-0.045
Trading Units	0.000	0.000	0.000	0.507	-0.344	-0.163	0.000	0.000	0.00%	0.000	0.000
Support Services and Corporate Spending	42.798	-10.743	32.055	8.157	-4.925	1.081	-2.493	1.820	5.68%	1.917	-0.096
Updated Business Rates Receipts	0.000	0.000	0.000	0.338	-3.060	0.000	0.000	-2.722	0.00%	-2.722	0.000
Technical Adjustment (Capital Receipts Flexibilities)	0.000	0.000	0.000	0.000	0.000	0.000	1.500	1.500	0.00%	1.500	0.000
SCC Total Spending	317.882	0.000	317.882	27.155	-31.736	7.648	-4.452	-1.385	-0.44%	-1.067	-0.318

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.