

# West Somerset Council

## Scrutiny – 6 December 2018

### Financial Monitoring – 2018/19 as at 30 September 2018

This matter is the responsibility of Councillor Martin Dewdney, Lead Member for Resources and Central Support

Report Author: Andrew Stark, Interim Finance Manager and Deputy S151 Officer

#### 1 Executive Summary

- 1.1 This report provides an update on the projected “outturn” – end of year – financial position of the Council for the financial year 2018/19 (as at 30 September 2018).
- 1.2 The current forecast outturn for the Revenue Budget is a net underspend of £150K.
- 1.3 The General Fund reserves forecast balance as at 31 March 2019 is projected to be £1.049m. The balance remains above the recommended minimum reserves level approved in the Council’s Budget Strategy (£0.7m).
- 1.4 The Earmarked Reserves projected balance is £4.241m after any transfers to and from earmarked reserves during the year. The majority of these reserves are allocated to business rates funding volatility (£1.523m), Strategic Housing Market Area Assessment (£576k), Planning Policy (£172k), Asset Maintenance and Compliance (£207k), Sustainability (£318k) and Creating a New Council/Transformation (£836k).
- 1.5 The current forecast position for the General Fund Capital Programme in 2018/19 is on target against a total approved budget of £13.893m. Forecast spend during the year is £1.987m with £10.185m projected to be spent in future years (£1.746m spent in previous years).

#### 2 Recommendations

- 2.1 That Scrutiny notes the Council’s forecast financial performance as at 31 September 2018 with the estimated position at the end of the financial year.

### 3 Risk Assessment (if appropriate)

#### Risk Matrix

| Description  | Likelihood | Impact | Overall |
|--|------------|--------|---------|
| That the Authority overspends against the approved budget  | 3          | 4      | 12      |
| <i>Mitigated by regular budget monitoring reports are produced and managers actively manage the budgets under their responsibility</i> | 1          | 4      | 4       |

#### Risk Scoring Matrix

|            |   |                |               |             |             |                |                |
|------------|---|----------------|---------------|-------------|-------------|----------------|----------------|
| Likelihood | 5 | Almost Certain | Low (5)       | Medium (10) | High (15)   | Very High (20) | Very High (25) |
|            | 4 | Likely         | Low (4)       | Medium (8)  | Medium (12) | High (16)      | Very High (20) |
|            | 3 | Possible       | Low (3)       | Low (6)     | Medium (9)  | Medium (12)    | High (15)      |
|            | 2 | Unlikely       | Low (2)       | Low (4)     | Low (6)     | Medium (8)     | Medium (10)    |
|            | 1 | Rare           | Low (1)       | Low (2)     | Low (3)     | Low (4)        | Low (5)        |
|            |   |                | 1             | 2           | 3           | 4              | 5              |
|            |   |                | Negligible    | Minor       | Moderate    | Major          | Catastrophic   |
|            |   |                | <b>Impact</b> |             |             |                |                |

| Likelihood of risk occurring | Indicator   | Description (chance of occurrence) |
|------------------------------|---|------------------------------------|
| 1. Very Unlikely             | May occur in exceptional circumstances                            | < 10%                              |
| 2. Slight                    | Is unlikely to, but could occur at some time                      | 10 – 25%                           |
| 3. Feasible                  | Fairly likely to occur at same time                               | 25 – 50%                           |
| 4. Likely                    | Likely to occur within the next 1-2 years, or occurs occasionally | 50 – 75%                           |
| 5. Very Likely               | Regular occurrence (daily / weekly / monthly)                     | > 75%                              |

### 4 Background and Full details of the Report

- 4.1 This report provides the Council's forecast end of year financial position for 2018/19 revenue and capital budgets as at 30 September 2018.
- 4.2 The regular monitoring of financial information is a key element in the Council's Performance Management Framework. Crucially it enables remedial action to be

taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the Council's the Medium Term Financial Plan.

- 4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led services. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas.
- 4.4 Budget Holders, with support and advice from their accountants, regularly review the position and update their forecasts based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year end, and a number of risks and uncertainties are highlighted within this report. However, the following forecast is considered to be reasonable based on current information.
- 4.5 It is clear that the organisation is undergoing major change at present with implementation of the new operating model under Transformation and the preparation for the new Somerset West and Taunton Council taking effect in April 2019. All reasonable effort is being undertaken by budget holders and finance staff to ensure that budgets remain under control during this period of disruption.

## 5. 2018/19 Forecast Outturn

### **General Fund Revenue Account – 2018/19 Forecast as at 30 September 2018**

- 5.1 The Council is currently forecasting an overall net underspend of £150k. This represents 2.9% of the overall Net Revenue Budget. Table 1 below provides a summary of the forecast position for the year.
- 5.2 Shadow Scrutiny will receive an update report in respect of transformation, with costs expected to exceed budget. The best estimates of anticipated costs and the funding plan are currently being finalised and will be reported to Shadow Scrutiny in November.

**Table 1 – Summary Predicted Revenue Position Q2 2018/19**

|                                     | Original Budget<br>£000 | Predicted Outturn<br>£000 | Variance<br>£000 |
|-------------------------------------|-------------------------|---------------------------|------------------|
| Corporate                           | 552                     | 535                       | (17)             |
| Operations                          | 3,019                   | 2,960                     | (59)             |
| Housing and Communities             | 559                     | 580                       | 21               |
| Growth and Development              | 531                     | 477                       | (54)             |
| Somerset Rivers Authority           | 25                      | 25                        | 0                |
| <b>Subtotal - Net Service Costs</b> | <b>4,686</b>            | <b>4,577</b>              | <b>(109)</b>     |
| Interest costs and income           | 120                     | 79                        | (41)             |
| <b>Subtotal – Net Costs</b>         | <b>4,806</b>            | <b>4,656</b>              | <b>(150)</b>     |

|  | Original Budget<br>£000 | Predicted Outturn<br>£000 | Variance<br>£000 |
|--|-------------------------|---------------------------|------------------|
| Transfers to Earmarked Reserves          | 601                     | 351                       | (250)            |
| Transfers to/from General Reserves       | 0                       | 0                         | 0                |
| <b>NET BUDGET AND EXPENDITURE</b>        | <b>5,407</b>            | <b>5,007</b>              | <b>(400)</b>     |
| Business Rates Funding                   | (1,964)                 | (1,713)                   | 250              |
| Revenue Support Grant                    | (170)                   | (170)                     | 0                |
| New Homes Bonus                          | (396)                   | (396)                     | 0                |
| Rural Services Delivery Grant            | (214)                   | (214)                     | 0                |
| Council Tax                              | (2,216)                 | (2,216)                   | 0                |
| Collection Fund Deficit - Business Rates | (396)                   | (396)                     | 0                |
| Collection Fund Surplus - Council Tax    | (51)                    | (51)                      | 0                |
| <b>TOTAL FUNDING</b>                     | <b>(5,407)</b>          | <b>(5,157)</b>            | <b>250</b>       |
| <b>NET UNDERSPEND FOR THE YEAR</b>       | <b>0</b>                | <b>(150)</b>              | <b>(150)</b>     |

- 5.3 Only significant variations to budget are included in this report, with the following overspends and underspends highlighted.

**West Somerset Q2 Budget Variances**

|  | Staff<br>£000 | Other<br>Expend<br>£000 | Income<br>£000 | Total<br>£000 |
|--|---------------|-------------------------|----------------|---------------|
| Facilities                                     |               | 11                      |                | 11            |
| Public Conveniences                            |               | (13)                    |                | (13)          |
| Street Cleansing                               |               | (57)                    |                | (57)          |
| Private Sector Renewal                         |               | (13)                    |                | (13)          |
| Member Services                                |               | (17)                    |                | (17)          |
| Development Control                            | 25            |                         | (79)           | (54)          |
| Estates  | 34            |                         |                | 34            |
| Interest Payable & Receivable                  |               | (5)                     | (36)           | (41)          |
| Business Rates                                 |               | 250                     |                | 250           |
| Transfer from Business Rates Smoothing reserve |               |                         | (250)          | (250)         |
| <b>TOTAL – over / (under) spend</b>            | <b>59</b>     | <b>156</b>              | <b>(365)</b>   | <b>(150)</b>  |

- 5.4 The main variances to budget are explained as follows:-

**Overspends**

- a) Facilities: Overspend of £11k is due to increased security costs and cleaning which is now contracted out.
- b) Estates: Overspend of £34k is due to agency staff costs

## Underspends

- c) Planning: There is a forecast underspend of £54k due to increased planning application income of £79k offset by additional agency costs of £25k.
- d) Public Conveniences: Forecast underspend of £13k, savings from business rates, water and electricity.
- e) Street Cleansing: There is a contract saving of £57k.
- f) Private Sector Renewal: There is saving on the Home Improvement Agency contracts of £13k.
- g) Member Services: There is a saving of £17k on member allowances.
- h) Interest Costs and Income: There is an underspend of £5k on interest payable as current cash flow forecasts indicated there will be no need to take on external loan borrowing during 2018/19, plus £36k additional investment interest income due to improved returns compared to budget assumptions.

## Business Rates

A summary of the new Retained Funding figure is shown in the table below:

**Table 2 – Business Rates Retention Estimates**

| <b>Business Rates Retention Funding Estimates</b> | <b>2018/19 Budget £000</b> | <b>2018/19 Actual £000</b> | <b>2018/19 Difference £000</b> |
|---|----------------------------|----------------------------|--------------------------------|
| 40% Standard Share of Business Rates Yield        | (6,662)                    | (6,662)                    | 0                              |
| Rates yield from renewable energy schemes         | (30)                       | (30)                       | 0                              |
| Tariff to Government                              | 4913                       | 4,913                      | 0                              |
| Levy Payment                                      | 545                        | 699                        | 154                            |
| Safety Net Income                                 | 0                          | 0                          | 0                              |
| S31 Grant   | (730)                      | (634)                      | 96                             |
| <b>Net Retained Business Rates Funding</b>        | <b>(1,964)</b>             | <b>(1,714)</b>             | <b>250</b>                     |

- 5.5 The prediction of Business Rates retained income is £250k lower than the 2018/19 budget
- 5.6 This is primarily down to paying a larger levy than budgeted for as the Council's income has risen due to higher compensation factor allowed against Small

Business Rates Relief. The budget assumed 50% whereas the actual percentage is 65.2%.

- 5.7 The Council is part of the Somerset Business Rates Pool and should receive a pool dividend for its sharing of the pooling gain, which is currently estimated at £488k. This figure is not accounted for in Table 1 as it will probably change on completion of the NNDR3 return for the year 2018/19, and won't be confirmed until the end of the financial year. The aim of pooling is to increase funding to support measures for delivering financially sustainable council services and investing in growth and infrastructure initiatives.

### **General Fund Reserves**

- 5.8 The following table shows that the current General Reserves balance is £898,976, and the current forecast underspend could increase this balance to £1,048,796 at the year end. .

**Table 3 – General Reserves Balance 31 March 2019**

|   | £000         |
|---|--------------|
| <b>Balance Brought Forward 1 April 2018</b>                 | <b>899</b>   |
| 2018/19 Projected Outturn Variance – Q2 Forecast Underspend | 150          |
| <b>Projected Balance 31 March 2019</b>                      | <b>1,049</b> |
| Recommended Minimum Balance                                 | 700          |
| Projected Balance above recommended minimum                 | 349          |

- 5.9 The current recommended minimum balance is £700k – the projected balance at 31 March 2019 of £1.049m would be £349k above the recommended minimum balance. In view of the Council's future financial pressures the prudent advice is to maintain reserves above the recommended minimum, to provide limited resilience for emerging costs and to provide some flexibility to support measures to address ongoing financial sustainability.

### **Earmarked Reserves**

- 5.10 Earmarked Reserves are amounts that have been set aside for specific purposes from existing resources, where the expenditure is expected to be incurred in future years. The table below provides a summary of the movement in earmarked reserve balances during 2018/19 financial year to date.

**Table 4 – Estimated Earmarked Reserves Balance 30 September 2018**

|  | £'000 |
|--|-------|
| Balance Brought Forward 1 April 2018         | 4,249 |
| Transfers From Earmarked Reserves in 2018/19 | (618) |
| Transfers To Earmarked Reserves in 2018/19   | 610   |
| Current Balance                              | 4,241 |

- 5.11 The table above shows that the current projected reserves balance is £4.241m

after proposed movements to and from reserves during the year have been included. Full details of earmarked reserves can be found in **Appendix A** to this report. A significant proportion of the balance (£1.523m) relates to the Business Rates Smoothing Reserve which is committed to provide a contingency for business rates funding volatility, £576k for community land fund to support bringing forward affordable housing and £738k which is committed to support Transformation and Creating a New Council.

### **Capital Budget Predicted Outturn 2018/19**

- 5.12 The following table summarises the position for both general schemes and Hinkley-funded schemes. Actual spend up to 30 September 2018 totals £526,207 and at this stage only a small variance against budget has been reported.

**Table 5 – Summary Capital Programme Forecast as at 30 September 2018**

|                                       | General Schemes<br>£'000 | Hinkley Funded Schemes<br>£'000 | Total<br>£'000 |
|---------------------------------------|--------------------------|---------------------------------|----------------|
| <b>Total Programme Budget</b>         | <b>9,618</b>             | <b>4,275</b>                    | <b>13,893</b>  |
| Spend in Previous Years               | 1,127                    | 619                             | 1,746          |
| Forecast Spend 2018/19                | 1,023                    | 964                             | 1,987          |
| Forecast Spend in Later Years         | 7,493                    | 2,692                           | 10,185         |
| <b>Total Forecast Capital Spend</b>   | <b>9,643</b>             | <b>4,275</b>                    | <b>13,918</b>  |
| <b>Net Underspend (-) / Overspend</b> | <b>25</b>                | <b>0</b>                        | <b>25</b>      |

- 5.13 A scheme by scheme analysis of the 2018/19 Programme at 30 September 2018 is set out in **Appendix B**.

## **6 Links to Corporate Aims / Priorities**

- 6.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

## **7 Finance / Resource Implications**

- 7.1 Contained within the body of the report.

## **8 Legal Implications**

- 8.1 There are no legal implications associated with this report.

## **9 Environmental Impact Implications**

- 9.1 None for the purpose of this report.

## **10 Safeguarding and/or Community Safety Implications**

- 10.1 None for the purpose of this report.

## **11 Equality and Diversity Implications**

11.1 None for the purpose of this report.

## **12 Social Value Implications**

12.1 None for the purpose of this report.

## **13 Partnership Implications**

13.1 None for the purpose of this report.

## **14 Health and Wellbeing Implications**

14.1 None for the purpose of this report.

## **15 Asset Management Implications**

15.1 None for the purpose of this report.

## **16 Consultation Implications**

16.1 None for the purpose of this report.

## **17 Scrutiny Comments / Recommendation(s)**

### **Democratic Path:**

- **Scrutiny – Yes**
- **Cabinet – Yes**
- **Full Council – No**

**Reporting Frequency: Quarterly (except Quarter 1)**

### **List of Appendices**

|            |  |
|------------|--|
| Appendix A | Summary of Proposed Earmarked Reserves |
| Appendix B | Capital Programme Outturn 2018/19      |

### **Contact Officers**

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