

Taunton Deane Borough Council

Executive – 28 November 2018

Financial Monitoring – 2018/19 as at 30 September 2018

This matter is the responsibility of the Leader of the Council, Councillor John Williams

Report Author: Andrew Stark, Interim Finance Manager

1 Executive Summary

- 1.1 This report provides an update on the projected outturn financial position of the Council for the financial year 2018/19 (as at 30 September 2018).
- 1.2 Monitoring the budget is an important part of the Council's performance management framework.
- 1.3 The current revenue forecast outturn for the financial year 2018/19 is as follows:
 - The General Fund (GF) Revenue Outturn is forecasting a net underspend of £13k.
 - The Housing Revenue Account (HRA) is forecasting underspend of £356k.
- 1.4 The current capital forecast position for 2018/19 is as follows:
 - The General Fund capital account is forecasting spend of £11.762m against a total Programme budget of £71.883m with £43.462m forecast to be spent in future years (£16.659m spent in previous years);
 - The HRA capital account is forecasting spend of £8.679m against a budget of £17.686m with £9.007m forecast to be spent in future years.

Any overspends or underspends in the capital forecast at this time are shown in **Appendix C**.
- 1.5 The General Fund reserves forecast balance as at 31 March 2019 is projected to be £2.312m. The balance remains above the recommended minimum reserves level approved in the Council's Budget Strategy (£1.7m).
- 1.6 The Housing Revenue Account (HRA) Reserve forecast balance as at 31 March 2019 is £3.132m, which is above the recommended minimum level (£1.8m) set within the Council's Budget Strategy and HRA Business Plan.

2 Recommendations

- 2.1 It is recommended that Executive notes the Council's forecast financial performance for 2018/19 financial year as at 30 September 2018.

3 Risk Assessment

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 |
| | | | Impact | | | | |

| 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 revenue and capital expenditure as at 30 September 2018 for the Council's General Fund (GF), Housing Revenue Account (HRA) and trading services.
- 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 demanded service costs and income levels. 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 £13k. This is a very small underspend compared to the Net Budget of £13m, and Gross Expenditure of £62m. It should be noted that this forecast assumes the costs of and savings from transformation are within budget.
- 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.
- 5.3 A Summary Statement of the General Fund Revenue Outturn by Portfolio is provided in **Appendix A**.

Table 1 - Summary of Significant Forecast Variances for the Year

| | Staffing | Other | Income | Total |
|--|-----------------|---------------|---------------|--------------|
| | £000 | Expend | £000 | £000 |
| | | £000 | | |
| Deane Helpline | 96 | (22) | (40) | 34 |
| Planning | 149 | 0 | (143) | 6 |
| Car Parking | 0 | (178) | 267 | 89 |
| Recycling | 0 | 0 | (76) | (76) |
| Bereavement Services | 28 | 99 | (215) | (88) |
| Waste Collection | 0 | 53 | 0 | 53 |
| ICT | 0 | 35 | 0 | 35 |
| Council Tax collection costs | 0 | 0 | 47 | 47 |
| Shopmobility | 0 | (20) | 0 | (20) |
| Leisure | 0 | (38) | 0 | (38) |
| Community Safety | 0 | 42 | 0 | 42 |
| Asset Management | 160 | (18) | (95) | 47 |
| Investment Income | 0 | 0 | (144) | (144) |
| Business Rates | 0 | 236 | 0 | 236 |
| Transfer from Business Rates smoothing reserve | 0 | 0 | (236) | (236) |
| TOTAL – over / (under) spend | 433 | 189 | (635) | (13) |

5.4 The main variances to budget are explained as follows:

Asset Management: There is a projected overspend of £62k. The use of agency to cover a number of vacancies staff has led to one-off overspend of £175k on staff costs. This reflects the challenging market for property specialist roles. This has been offset by one-off recovery of historic bad debt income of £95k plus a forecast underspend of £18k on bus shelters. Work is underway to let these properties where possible. Opportunities to further mitigate the cost pressures will be explored during the remainder of the financial year.

Car Parking: There is overspend on car parking of £89k. The income levels forecast in the budget setting has not materialised by £267k and there is an increase in the external contract of £41k. This has been partially offset by £219k savings in business rates and repairs and maintenance. Base budgets for both costs and income will be realigned for 2019/20 budget estimates.

Planning: Increased income of £143k has been offset by costs of agency staff to backfill staff shortages of £149k gives a projected overspend of £6k.

Leisure: A potential additional contract item for the spa from Tone Leisure has not materialised has given a saving of £38k.

Community Safety: There is a budget error in the CCTV contract of £42k.

Shopmobility: Savings on electricity, maintenance and grant has given underspend of £20k.

Waste Recycling: The service is projecting additional income from green waste collection services of £76k with demand for the service exceeding budget expectations. As this is a demand-led service the position can fluctuate, however as the majority of income is received early in the financial year for the annual kerbside collection service the forecast is expected to be reasonably accurate at this stage.

Waste Collection: Additional volume costs of £53k are being charged for the year by Somerset Waste Partnership.

Bereavement Services: The service has projected additional income of £88k. Bereavement services is a demand led service and usage has increased during the year producing additional income for the service of £215k which has been offset by planned maintenance by contractors, additional staffing of £28k to cover upturn in workload and additional cremator maintenance and repair of £60k and £39k for the purchase, lease and repair of plant and machinery.

ICT: Smartphone 8*8 rollout has increased revenue costs by £35k but enables greater efficiency and agile working.

Council Tax Collection: This projected shortfall of income of £47k is in respect of reduced recovery action.

Interest Costs and Income: Additional investment income of £144k has been received due to improved returns.

Business Rates

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

Table 2 – Business Rates Retention Estimates

| Business Rates Retention Funding Estimates | 2018/19 Budget £000 | 2018/19 Actual £000 | 2018/19 Difference £000 |
|---|----------------------------|----------------------------|--------------------------------|
| 40% Standard Share of Business Rates Yield | 15,219 | 15,219 | 0 |
| Rates yield from renewable energy schemes | 171 | 171 | 0 |
| Tariff to Government | (12,781) | (12,781) | 0 |
| Levy Payment | (375) | (501) | (126) |
| Safety Net Income | 0 | 0 | 0 |
| S31 Grant | 1,358 | 1,248 | (110) |
| Net Retained Business Rates Funding | 3,592 | 3,356 | (236) |

5.5 The forecast of Business Rates retained income is £236k lower than the 2018/19

budget. 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 69.7%. S31 grants are also lower than budgeted.

- 5.6 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 £503k. 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.

6 General Fund Reserves

General Reserves

- 6.1 The following table summarises the movement on the General Reserves Balance to 30 September 2018.

Table 3 - General Reserve Balance

| | £000 |
|--|--------------|
| Balance Brought Forward 1 April 2018 | 2,299 |
| 2018/19 Projected Outturn Variance – Q2 Forecast | 13 |
| Projected Balance 31 March 2019 | 2,312 |
| Recommended Minimum Balance | 1,700 |
| Projected Balance above recommended minimum | 612 |

- 6.2 The forecast balance as at 31 March 2019 is £2.312m. This would be £612k above the recommended minimum balance of £1.700m. The balance is only a forecast and can change which means it must be caveated at this stage. The final outturn for the year will be reported in the spring.
- 6.3 In view of the Council's future financial pressures the prudent advice is to maintain reserves above the recommended minimum, to provide some resilience for emerging costs and to provide some flexibility to support measures to address ongoing financial sustainability.

General Fund - Risk and Uncertainty

- 6.4 Budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the 2018/19 financial year is estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain.

- 6.5 The following risks and uncertainties have been identified:
- 6.5.1 **Fluctuation in demand for services:** We operate a number of demand-led services and the levels of demand do not always follow a recognisable trend. We therefore have to caveat the forecasts in these areas to account for fluctuations.
 - 6.5.2 **General Spend:** It is conceivable that, whilst budget holders are optimistic that they will spend all of their budget, we could see underspends of £50k-£100k by year end caused by the cumulative effect of minor underspends in a number of service areas.
 - 6.5.3 **Year End Adjustments:** Certain items are not determined or finalised until the financial year end. For example, the final assessment of provisions required for bad debts, and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.
 - 6.5.4 **Business Rates:** There are inherent risks and uncertainties within the Business Rates Retention system. The Council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area. The figures are subject to volatility. Forecasts have to reflect this uncertainty. Due to delays caused by the additional work required on last year's accounts, the current forecasts still need to be prepared.
 - 6.5.5 **Rent Allowances/Rebates:** Q2 has identified a possible overspend in rent allowances/rebates of £85k. As this service has historically underspent in previous years the overspend has not been formally reported as a variance in this report, but is however flagged as a potential financial risk.
 - 6.5.6 The Council carries protection against risk and uncertainty in a number of ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

Deane DLO Trading Account

- 6.6 As at 30 September 2018, the DLO is forecasting to come in on budget after contributing £50k to the General Fund. Any surplus will be transferred to the DLO trading reserve. Due to the complexities of the business and the significant sums involved in the DLO operation, the year-end outturn forecast is an estimate at this point in time. This forecast outturn needs to be flagged as a risk and will be continually monitored.
- 6.7 The Trading Account Reserves Position balance brought forward of £436k relates to a retained trading surplus of £121k, plus capital reserves and £315k to fund vehicle replacement.
- 6.8 As agreed within the transformation plan, continuous improvement of DLO

services will enhance all aspects of operational efficiency and effectiveness.

Deane Helpline Trading Account

- 6.9 The Deane Helpline's net budget is £135k. The service is predicting a net overspend of £34k at year end. Forecast overspend in staffing of £96k due to increased sickness has been offset by additional income of £40k and IT contract saving of £22k.
- 6.10 There are no funds held in the Deane Helpline Trading Account Reserve, therefore any deficit would have to be underwritten by the General Fund.

General Fund Capital Programme

- 6.11 The total approved General Fund Capital Programme is currently £71.883m. This relates to schemes which will be completed over a number of years. Of this, Budget Holders are projecting that £11.762m will be spent during 2018/19 with £43.462m due to be spent in future years. £16.659m has been spent on 'current' schemes in previous years. Current in-year spend as at 30 September 2018 is £4.709m. The Council is supporting this investment through the use of Capital Grants and Contributions, Capital Receipts, Revenue Funding and Borrowing
- 6.12 The major areas of capital spend planned for future years include, £3.5m on Somerset Waste Partnership loan, £2.765m on Town Centre Regeneration and £2.669m on Major Transport Schemes. In addition, significant budget approvals have been made by Council within confidential reports – with figures not disclosed in order to protect the Council's interests during procurement phase.
- 6.13 The major area of capital spend in 2018/19 is £650k on Disabled Facilities Grants, £4.092m on Deane House Accommodation backlog maintenance and improvements, £774k on Transformation costs, £1.135m on Parking Access and Signage, £742k on Coal Orchard and £334k on DLO vehicles.
- 6.14 A summary of the General Fund Capital Programme budget and forecast for the year is included in **Appendix C**.

7 Housing Revenue Account (HRA)

- 7.1 The HRA is a 'Self-Financing' account for the Council's Housing Landlord function, which is budgeted to break-even (net of approved transfers to/from HRA Reserves). The current forecast HRA Revenue Outturn for 2018/19 is a gross surplus of £356k (1.3% of gross income).
- 7.2 The current forecast outturn for 2018/19 is provided in more detail in **Appendix B**.
- 7.3 The major under and overspends forecast for year are summarised as follows

- 7.4 **Leasehold Income:** Income from leaseholders is higher than budgeted by £65k to reflect the increased cost of maintenance on shared blocks.
- 7.5 **Housing Management:** Vacancies in tenant management, lettings, tenant empowerment, supported housing have created underspend of £351k.
- 7.6 **Insurance:** Insurance costs are higher than budget. Grounds maintenance costs for clearing properties are above budget. The forecast overspend for both is £215k.
- 7.7 **Responsive Maintenance:** A forecast underspend in maintenance of £172k in subcontractors used in electrical works as a result of better scheduling and securing cover for vacant posts.
- 7.8 **Interest Receivable:** Changes to reserve balances mean that the interest received on investments is forecast to be lower than budgeted by £66k.

HRA - Risk and Uncertainty

- 7.9 As with the General Fund, budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the financial year 2018/19 is estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.

Housing Revenue Account General Reserves

- 7.10 The HRA reserves at the start of the year were £2.778m. The forecast underspend of £356k for 2018/19 increases the balance to £3.132m. This is above the minimum recommended reserve level of £1.800m by £1.332m, providing a good level of resilience to unplanned fluctuation in costs.

Table 3: HRA Reserve Balance

| | £k |
|---|--------------|
| Balance Brought Forward 1 April 2018 | 2,778 |
| Forecast Outturn 2018/19 (as at 30 September 2018) | 356 |
| Forecast Balance Carried Forward 31 March 2019 | 3,132 |
| Recommended Minimum Balance | 1,800 |
| Forecast Balance above recommended minimum | 1,332 |

8 HRA Capital Programme

- 8.1 The HRA approved Capital Programme is £17.686m. This relates to schemes which will be completed over the next five years. The Council is supporting this investment through the use of Capital Receipts, Revenue Funding and Borrowing.

- 8.2 **Appendix C** provides a breakdown of the HRA Capital Programme Outturn by scheme.
- 8.3 The capital programme can be split into three distinct areas:
- 8.4 **Major Works:** £7.499m of the capital budget in the HRA relates to major works on existing dwellings and includes works such as kitchens, bathrooms, heating systems, roofs, doors and windows. Actual spend at 30 September 2018 is £2.431m. Forecast expenditure to 31 March is £5.769m.
- 8.5 **Improvements:** A total of £2.535m capital budget relates to such as disabled facilities adaptations, asbestos removal, environmental improvements and extensions. Actual spend to 30 September 2018 is £59k. Forecast expenditure to 31 March is £1.217m.
- 8.6 **Development:** The remaining budget of £7.652m is for the provision of new housing through Creechbarrow Road, Weavers Arms and the Social Housing Development Programme. Actual spend to 30 September 2018 is £745k with forecast expenditure to 31 March £1.693m.

9 Links to Corporate Aims / Priorities

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

10 Finance / Resource Implications

- 10.1 Contained within the body of the report.

11 Legal Implications

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

12 Environmental Impact Implications

- 12.1 None for the purpose of this report.

13 Safeguarding and/or Community Safety Implications

- 13.1 None for the purpose of this report.

14 Equality and Diversity Implications

- 14.1 None for the purpose of this report.

15 Social Value Implications

15.1 None for the purpose of this report.

16 Partnership Implications

16.1 A wide range of council services are provided through partnership arrangements e.g. GLL for leisure services and Somerset Waste Partnership for Waste and Recycling services. The cost of these services is reflected in the Council's financial outturn position for the year.

17 Health and Wellbeing Implications

17.1 None for the purpose of this report.

18 Asset Management Implications

18.1 None for the purpose of this report.

19 Consultation Implications

19.1 None for the purpose of this report.

20 Scrutiny Comments / Recommendation(s)

20.1 During the discussion of this item, Members made comments and statements and asked questions on a number of areas. These are included within the minutes of the Scrutiny Committee and are shown below:-

- Concern was raised on the delay in the implementation of the Pay by Foot parking scheme and that it would introduce variations in the parking charges for each car park for 'blue badge' holders.
- Members queried what factors had contributed to the £356,000 underspend on the HRA. *The main variances were in responsive maintenance and staff vacancies.*
- Concern was raised on the Community Safety budget error of £42,000. *When the previous budget was set, there had been an assumed amount that had been funded from the reserve, which had been carried forward.*
- Members queried whether the budget allocations in Appendix C would be held for the projects listed. *Clarification was given on the allocations and the details of the projects would be distributed to the Committee.*
- Concern was raised on the risk that had been flagged on the DLO Trading Account. *Due to work still being carried out on the account, officers did not have the full details, so were unable to report accurate figures, however, the forecasts were closely monitored and were subject to audit.*
- Members requested clarification on the HRA expenditure and what could be done to help divert money to help with the housing problems. *A written response from the Housing Manager would be distributed to the Committee.*

- Concern was raised that the Council was not meeting its statutory function to provide homes for the homeless. *The Interim Finance Manager would report their concern to the Housing Manager.*
- The Chairman reminded Members that the Homelessness Manager had attended the previous meeting of the Committee and it was suggested that a Members Briefing could be arranged for further detail on the homelessness policy.
- Members suggested that other officers should attend meetings where financial reports were discussed so that any queries that related to the policies could be answered.
- Members queried the reasons behind the Car Parks £89,000 overspend. *The Car Parks overspend was a result of the delay in the Pay by Foot scheme, but once the project was implemented, officers expected an increase in income.*
- Members requested assurance that the upturn in parking income would happen once the Pay by Foot scheme was implemented. *Officers had researched other Pay by Foot schemes that had been introduced across the country and found that each scheme had reported an increase in income. This was due to the nature of the scheme which allowed customers to park for longer without the worry of being fined.*
- Members requested clarification on the additional volume costs of £53,000 on the Somerset Waste Partnership (SWP) contract. *The additional volume costs were based on garden waste and new containers being charged separately to the SWP contract.*
- Concern was raised on the cost of the roll out of smart phones within the Authority and Members queried what the cost related to. *The roll out of smart phones related to the introduction of the 8x8 internet phone system that had replaced the fixed terminal phones in the offices.*
- Members requested clarification on the cost of the Transformation Project. *Full details were due to be published in the agenda for the Shadow Scrutiny meeting scheduled for 26 November 2018, until then, the details had not been finalised.*
- Members queried the significant forecast variance for Planning and whether this was due to the amount of agency staff that were working in the department. *The Head of Strategy anticipated that the costs related to the use of the department had seen an increase in additional income.*
- Concern was raised on the forecast for the DLO Account and Members requested that an update be brought to Scrutiny in either December 2018 or January 2019. *The Governance and Democracy Specialist would add the item to the Scrutiny Work Programme.*
- Members requested a breakdown of the figures for Insurance and Improvements costs that had been included in sections 7.6 and 8.5 of the report. *The Finance Officer would send out a written answer.*
- Members queried whether the way the DLO department operated would change in the future. *Yes, all departments were due to change their working practices as part of the new structure and Transformation Project.*
- Concern was raised on the amount that had been spent on ICT and that the figures would only increase over the years with the roll out of new equipment.

There would be money set aside from certain budgets to help pay for new equipment in the future. There had been issues with certain aspects of the roll out, however, there were many benefits linked to the new equipment. Further 'drop in' sessions would be arranged to assist Members with any technical questions.

Democratic Path:

- **Scrutiny – Yes 13 November 2018**
- **Executive – Yes 28 November 2018**
- **Full Council – No**

Reporting Frequency: Quarterly (except Quarter 1)

List of Appendices

| | |
|------------|--|
| Appendix A | General Fund Revenue Account Outturn Summary |
| Appendix B | Housing Revenue Account Outturn Summary |
| Appendix C | General Fund and Housing Revenue Account Capital Programme Outturn Summary |

Contact Officers

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