



## Report of the Cabinet Member for Economy & Strategy

Cabinet – 16 August 2018

### Revenue and Capital Budget Monitoring 1st Quarter 2018/19

<b>Purpose:</b>	To report on financial monitoring of the 2018/19 revenue and capital budgets, including the delivery of budget savings.
<b>Policy Framework:</b>	Budget 2018/19 Transformation and Future Council (Sustainable Swansea –fit for the future)
<b>Consultation:</b>	Cabinet Members, Corporate Management Team, Legal and Access to Services.
<b>Recommendation:</b>	It is recommended that the comments and variations in this report, and the actions in hand to address these, are noted.
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#### 1. Background and Introduction

1.1 This report details forecast variations from the agreed budget for 2018/19, including the latest assessment of the delivery of savings.

1.2 In respect of Revenue Budgets, this report provides a consolidated forecast which combines:

- projected variations (mainly shortfalls) in relation to budget savings agreed by Council in March 2018

- Variations arising from other service pressures not directly linked to specific savings plans (e.g. increased demand)

1.3 The report includes comments from Directors in relation to the variations highlighted and the action that is in hand or proposed as appropriate.

## **2. Revenue Outturn Forecast Based on 1<sup>st</sup> Quarter position**

2.1 Appendix 'A' to this report details the approved Revenue Budget for 2018/19 and the forecast variation at this time.

2.2 Other than projected variations on Directorate expenditure, it is still too early to forecast variations that may arise on some significant Corporate items including the level of Council Tax collection (although it more often than not achieves a modest surplus) – it is assumed at the current time that these remain largely as per the approved budget.

2.3 The overall Directorate position is summarised below:-

### **DIRECTORATE**

	<b>FORECAST VARIATION 2018/19 £000</b>	<b>SAVINGS VARIATION 2018/19 £000</b>	<b>OTHER VARIATION 2018/19 £000</b>
RESOURCES (inc. all Business Support)	2,407	2,407	0
PEOPLE - POVERTY AND PREVENTION	0	0	0
PEOPLE - SOCIAL SERVICES	6,532	3,652	2,880
PEOPLE – EDUCATION	0	11	-11
PLACE	0	590	-590
<b><u>NET DIRECTORATE EXPENDITURE</u></b>	<b>8,939</b>	<b>6,660</b>	<b>2,279</b>

2.4 Directors' comments on the above variations are shown at Appendix B :-

2.5 Within the *Sustainable Swansea* Delivery Programme, work continues to develop service delivery plans that will include all savings requirements across all strands. This includes the cross cutting nature of new reviews as well as the completion of current in-flight reviews.

2.6 The above potential overspend remains a significant risk and needs to be immediately addressed on a whole Council basis as it would unacceptable to have any further risk of a draw from General Fund reserves at year end. A number of the overspend areas follow on from the outturn position for 2017/18 and need to be considered in the light of the forecast savings going forward within the 2018/19 budget, Medium Term

Financial Plan, and the cumulative effect of non-achievement of savings going forward.

2.7 Corporate Management Team has re-enforced the current arrangements for budget monitoring in particular :-

- focus on a range of corrective actions;
- targeted immediate spend reduction action;
- further increased spending control on all vacancies and contracts;

2.8 Offsetting opportunities do exist to ameliorate some of the identified service pressures as follows.

- £1m was set aside in the budget for the potential costs relating to the impact of the Apprenticeship Levy. The final costs relating to this levy will only be known once final employee related costs are calculated at the year end. Should the full allocation not be required then any saving will be proposed to be used to mitigate service pressures at year end.
- £1m was also set aside to meet any specific and significant inflationary increases arising in year. Given the overall financial projection at this stage it is proposed by the S151 officer that rather than allocate elements to any potential specific inflationary pressures that the whole amount is immediately used to offset the pressures listed above. This is likely to exacerbate reported service spending pressures further in due course but is a necessary immediate step to be taken.

2.9 It should be noted that on basis of bids already committed to the Council's remaining Transformation Fund reserve (balance at 1 April 2018 remaining was £193,000 )this remains committed and cannot therefore be used to fund further transformative work unless and until monies advanced for existing plans start to crystallise additional and significant savings to pay back to the fund, not merely help unlock already planned budgeted savings.

### **3. Contingency Fund Provision for 2018/19**

3.1 The contingency fund is set at the £3.45m contribution for 2018/19 as set out in the budget report approved by Council on 6th March 2018. This is significantly lower than in recent years.

3.2 The current potential calls on the contingency fund for 2018-19 are:-

<b>Contingency Fund 2018/19</b>	<b>Prediction</b>
	<b>2018/19 (£m)</b>
Contribution for year	3.450
City Deal revenue contribution.	-0.050
Statutory Data Protection Officer post (but to be reimbursed from the Restructure Reserve £53k)	0.000
ER/VR in year costs	-1.400
<b>Balance 31st March 2019</b>	<b>2.000</b>

The above table lists potential calls on the budgeted contingency fund. The final amounts will be dependent on a number of factors during the year including speed of implementation, actual costs/commitments incurred and final Directorate outturn position. Spend approvals will be deliberately limited to seek to maximise underspend here as part of mitigating budget savings action. Updates will be provided during the financial year as part of the routine quarterly reporting to members.

City Deal contribution of £50k per annum will be met initially in 2018/19 from the Contingency and be base budgeted for in future years. There will also be a 1.5% top slice fee which will, where at all possible, be funded by capital flexibilities (and thus charged to capital) as part of the final agreed City Deal terms.

Any departures under ER/VR in 2018-19 up to a maximum of £1.4m are again currently planned to be charged to the contingency fund as a one off cost to release future revenue savings. Any excess costs will fall to the restructure reserve, simply to conserve some headroom in the contingency fund.

The remaining balance of £2m is proposed by the S151 to be utilised to fund forecast service pressures outlined in table 2.3 above and shown in Appendix A..

The Budget report approved by Council in March 2018 included the proposal that Schools would be able to specifically access up to £1.3m of the Restructure Reserve in 2018-19 on a one off basis. This funding will be utilised in meeting ER/VR costs and facilitating innovative and transformative working and will therefore not be charged against the Contingency Fund. Applications to date indicate this sum will be fully utilised.

The S151 officer proposes to reserve his final position on the recommended levels of use of the restructure reserve and contingency fund until the success or otherwise of reducing the forecast overspend is known at year end.

- 3.3 The initial scale of potential overspends for 2018/19 remain significantly in excess of any potential sums available to offset that shortfall. The current indication is that there still needs to be urgent and decisive action to pursue additional savings across the Council.

3.4 The action being taken includes working through existing plans on an accelerated delivery basis :

- Management and Business Support Review: ongoing comprehensive review of the management structure across the Council and future requirements given the Council's priorities, future challenges and the changing nature of the role of managers
- Reducing the Pay Bill: review of options to reduce employee costs across the Council as part of our overall future workforce strategy (subject to trade union consultation at the appropriate time)
- Commercialism through third party Procurement Savings and Income Generation: review of further options to increase income from fees and charges, trading etc, in addition to the targets already set for 2018/19
- Progressing Commissioning Reviews and Cross Cutting Themes.
- Implementation of the Leading Learners transformation programme for Education that outlines a range of projects.
- Further implementation of the Adult Services Saving Plan through which we have identified mechanisms for bringing down overall costs.
- Strengthening and tightening further the extant spending restrictions which have been reviewed, refreshed and reissued by Corporate Management Team.

3.5 It should be noted that at this time, although the Council continues to pursue a number of VAT related claims, some are more advanced than others, there is NO certainty of windfalls from VAT refunds or any other external source being received in the current year.

#### **4. Revenue Budget Summary**

4.1 The position reported above reflects the best known current position. A net £8.9m of shortfall in revenue budgets, offset by £3.0m of identified additional savings from the non-allocation of the Inflation provision (£1m) together with restricting the use of the Contingency Fund to release £2m. In addition as per 4.9 below the S151 officer is proposing a one off usage of £3m from a review of ear marked reserves this leaves a forecast overall £2.9m overspend forecast for the year at the end of the first quarter.

4.2 Corporate Management Team have reinforced the expectation that overall net expenditure must try to be contained within the limits of the current year budget as set by Council.

4.3 As previously mentioned, it is too early to provide an accurate forecast as to the potential outturn on corporate items such as Council Tax collection which is in itself potentially affected by the effects of welfare reform measures, but offset by an often increasing tax base.

4.4 Included in the projected budget for 2018/19 for other corporate items were budgeted increases in capital finance charges, recognising the need to commence funding for the ambitious Capital Programme. At this early stage no variance is forecast, in any case any underspending will be transferred at year end to the capital equalisation reserve, a strategy previously agreed by Council . This will be reviewed and updated during the year as various capital schemes/programmes progress.

- 4.5 The overall judgement at this point is that there is an urgent need to identify significant additional budget savings across all Council Services to improve the 2018/19 position. Based on the level of the current forecast this achievement for 2018/19 is looking once again, extremely challenging.
- 4.6 There remains a degree of confidence that some further minor inroads can be made into the forecast overspend position by ongoing management and member action. Equally, the scale remains such, that it would be on balance very unlikely that spending can be fully contained in year without wide scale mitigation actions, including those set out in this report.
- 4.7 There continue to be increasing risks around general inflationary pressures (including potentially a much higher than previously budgeted teachers' pay award from September). Nevertheless the Council simply cannot afford to fund them, savings will have to be made elsewhere to meet such pressures.
- 4.8 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis.
- 4.9 Within the Council approved budget for 2018-19 was an element of funding from the General Reserve of £1 million to fund support for Minority Ethnic achievement and the education of Roma Traveller learners and School Uniform Grants. The grant funding having been effectively simply withdrawn by the Welsh Government. Following concerns and lobbying from members and officers across Wales as to the impact of this reduction in grant, Swansea Council received a letter on the 17<sup>th</sup> May from the Welsh Government stating that it would provide the majority of the funding previously withdrawn for 2018-19, albeit in slightly different ways. The shortfall in funding related to the School Uniform Grant and amounted to approximately £60,000. Welsh Government has recently announced an effectively wider replacement scheme for this aspect of funding as well. Therefore, the whole planned emergency draw from General Reserves can be considered fully unwound.

There is a need to consider an Immediate draw from earmarked reserves. To help mitigate overspend pressures further, in light of general reserves being at the minimum declared safe level, and thus no meaningful overspend being acceptable, the S151 officer has consulted with Directors and proposes to immediately draw £3m from earmarked reserves.

The proposed draw includes relative modest sums from the restructure reserve and the insurance reserve, but more importantly exhausts over 20 other reserves in full. This is a clear emergency measure and, as reserves are one off, is not a sustainable funding strategy. Furthermore these reserves were set up to fund known and expected future spend commitments and thus will mean the costs will have to be met when they actually fall due in future years budgets (e.g. the full cost of running the next local government election), when budgets are likely to be under even further strain.

At this point in time CMT has agreed a nominal additional savings stretch target of £1m per directorate – £3m in total, designed to ensure residual overspends are addressed by offsetting underspends elsewhere. The success of this approach will need to be closely monitored and if it does not ameliorate the residual spending pressures, further emergency action will be considered for the second quarter.

In both cases, it is imperative that sustainable base budget savings are found to replace these in year one off actions to stabilise the 18-19 budget ahead of an anticipated extremely challenging 2019-20 budget round.

## **5. Capital Budget**

5.1 Expenditure to 30<sup>th</sup> June 2018 is £11.268 million, summarised as follows:

<b>Directorate</b>	<b>Budget 2018/19</b>	<b>Actual to 30/06/18</b>	<b>% spend</b>
	£'000	£'000	
Corporate Services	6,711	137	2.0%
People	15,678	1,306	8.3%
Place (General Fund)	52,114	4,294	8.2%
Place (HRA)	63,944	5,531	8.6%
<b>Total</b>	<b>138,447</b>	<b>11,268</b>	<b>8.1%</b>

Expenditure on major capital schemes is detailed in Appendix D.

It should be noted that the actual spend to 30 June may only have 1 or 2 months costs relating to external invoices. In addition the budgets will be reviewed during July which will result in some budgets being re-profiled into later years.

## **6. Housing Revenue Account**

6.1 There are no material budget issues to flag at this stage of the year. There are some anticipated underspends on employee costs and any slippage on the capital programme may lead to a reduction in capital finance costs however it is too early in the year to make an accurate forecast.

## **7. Legal Issues**

7.1 There are no legal issues contained within this report.

## **8. Equality issues**

8.1 The Revenue budget of the Council was approved following the application of the corporate Equality Impact Assessment (EIA) process throughout the Budget setting process. It is essential where service levels are affected by changes to the Revenue Budgets (including savings options) that the EIA process (alongside consultation and engagement as appropriate) is applied to ensure due regard is paid to the potential equality impacts of any proposals prior to decision making.

**Background papers:** None

**Appendices:** Appendix A – Revenue Budget forecast 2018/19  
 Appendix B – Directors comments on variances  
 Appendix C – Savings tracker summary  
 Appendix D - Expenditure on major Capital Schemes

## REVENUE BUDGET PROJECTION QUARTER 1 2018/19

<b><u>DIRECTORATE</u></b>	<b>BUDGET 2018/19 £000</b>	<b>PROJECTED 2018/19 £000</b>	<b>VARIATION 2018/19 £000</b>
RESOURCES	41,587	43,994	2,407
PEOPLE - POVERTY AND PREVENTION	6,358	6,358	0
PEOPLE - SOCIAL SERVICES	111,419	117,951	6,532
PEOPLE – EDUCATION	166,808	166,808	0
PLACE	56,701	56,701	0
<b><i>NET DIRECTORATE EXPENDITURE</i></b>	<b>382,873</b>	<b>391,812</b>	<b>8,939</b>
SPECIFIC PROVISION FOR APPRENTICESHIP LEVY/INFLATION	2,000	1,000	-1,000
CONTINGENCY FUND	3,450	1,450	-2,000
<i>OTHER ITEMS</i>			
LEVIES			
SWANSEA BAY PORT HEALTH AUTHORITY	86	86	0
CONTRIBUTIONS			
MID & WEST WALES COMBINED FIRE AUTHORITY	12,631	12,631	0
<i>CAPITAL FINANCING CHARGES</i>			
PRINCIPAL REPAYMENTS	16,066	16,066	0
NET INTEREST CHARGES	16,643	16,643	0
<b><i>NET REVENUE EXPENDITURE</i></b>	<b>433,749</b>	<b>439,688</b>	<b>5,939</b>
<i>MOVEMENT IN RESERVES</i>			
GENERAL RESERVES	-60	-60	0
EARMARKED RESERVES	-873	-3,873	-3,000
<b><i>TOTAL BUDGET REQUIREMENT</i></b>	<b>432,816</b>	<b>435,755</b>	<b>2,939</b>
DISCRETIONARY RATE RELIEF	400	400	0
<b><i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i></b>	<b>433,216</b>	<b>436,155</b>	<b>2,939</b>
COMMUNITY COUNCIL PRECEPTS	1,403	1,403	0
<b><i>TOTAL REQUIREMENT</i></b>	<b>434,619</b>	<b>437,558</b>	<b>2,939</b>
<b><i>FINANCING OF TOTAL REQUIREMENT</i></b>			
REVENUE SUPPORT GRANT	239,946	239,946	0
NATIONAL NON-DOMESTIC RATES	79,141	79,141	0
COUNCIL TAX - CITY AND COUNTY OF SWANSEA	114,129	114,129	0
COUNCIL TAX - COMMUNITY COUNCILS	1,403	1,403	0
<b><i>TOTAL FINANCING</i></b>	<b>434,619</b>	<b>434,619</b>	<b>0</b>

**Directors comments on budget variances**

**Appendix B**

**Director of Resources**

Variance	£000	Explanation and Action
<b><u>Savings Variation</u></b>		
Management review of grade 10 and above	113	These three areas form part of Corporate Services proposals to merge and review cross-cutting functions across the Council related to Business Support functions, exploring new ways working including regional collaboration where possible. Proposals and plans are in discussion with the aim of implementing in the next qtr.
Service review/regional working/shared services	239	
Stopping or reducing services through new ways of working	597	
Working commercially across the Council on income / contract spend, prioritising resources as per strategy and plan	973	The Commercial Strategy and Implementation Plan has been developed and is underway. Progress is already being made by the Commercial team who have successfully secured £177k of income during Qtr 1. New governance has been introduced around contract spend. From June this now forms part of senior management weekly monitoring, which will further reduce and rationalise contract spend
Merging of Land Charges with Planning and Building Control as per the Commissioning Review	25	The team has successfully merged with Planning and savings achieved in the Place Directorate. It was planned that new ways of working would release this £25k in legal however, this is no longer possible therefore alternative savings are now being sought.
Establishing Business Support hubs in the People and Place Directorates	300	£300k of the original £600k target has now been achieved by the People Directorate. Plans are still in discussion with both the People and Place Directorates around further savings as a result of implementing the 'One Council' approach to Business Support.
Transfer and review of the Welsh Translation Unit, including cost and charges	160	The Welsh Translation Unit has now successfully transferred into Corporate Services from the Education Service. A review of processes, ways of working and charges is underway with proposals and plans coming forward to achieve the saving in the next qtr.
<b>Total Variation</b>	<b>2,407</b>	

Corporate Services underwent significant change in the final quarter of 2017-18, in order to realise savings and rebalance the budget for the start of 2018-19. As many of these

changes involved staff leaving the Council on early retirement/voluntary redundancy there was a time lag where some staff did not depart until the 30<sup>th</sup> June. The Directorate has proactively and strictly managed any overspending in Quarter 1, from both these delayed departures and the implementation of the in year 2018-19 savings targets. At the end of Quarter 1 the Council Tax Reduction Scheme underspent by £345k, which could indicate a final year underspend of around £750k. However, this budget delivers important support and is dependent on demand, particularly with the introduction of changes to Universal Credit. The current assumption is that all in year spend additional spend pressures can be accommodated by the likely underspend on CTRS.

Detailed plans and proposals are in place for all of the variances above except for £25k in Land Charges, which will be ready for the Quarter 2 report.

Reducing Sick Pay and Professional Fees - A Terms & Conditions Working Group has been established, comprising Trade Unions, Cabinet Members and Directors. The work plan to deliver the savings has been agreed. This quarter progress has been made on developing flexible working practices to contribute to management of absence. It will take some time for the interventions to impact the cost of sickness. However the outcomes of work plan are being closely monitored and any corporate actions will be taken through the Terms and Conditions Working Group.

### **Director of People**

#### **Social Services**

Variance	£000	Explanation and Action
<b>Savings Variation</b>		
Review of CHC arrangements - Maximise Health contribution for packages of care	1,000	Issues continue with established ways of working and resistance from ABMU to discuss equitable and appropriate contributions towards identified packages of care.
Senior Staffing - Review/Reduce posts at senior level (linked to implementing preferred options of Adult Services Commissioning Reviews and fit for purpose structure)	435	The achievement of these savings are substantially linked to the outcome of the Commissioning Reviews noted below.
Residential Care for Older People - Implement preferred options as outcome of Commissioning Review leading to reduction of in-house beds	169	Consultation to conclude 23rd July 18. Analysis of responses will dictate next steps & potentially affect timeline for delivery
Provide day services to those who are eligible only	110	
Implement preferred options as outcome of Commissioning Review (LD, PD & MH service provision commissioning review)	500	Draft strategies consulted upon alongside budget consultation.

Direct Payments Prepaid Cards - Introduction of prepaid cards to service users to minimise potential for direct payments to be used incorrectly	150	Roll out of pre-paid cards to all new customers and transition of existing clients underway. Monitoring and monthly financial reporting on savings established to accurately report on progress against target
Review of CHC Arrangements/LD MH Right Sizing and Review - Review all Mental Health and Learning Disability packages of care, to ensure that they are fit for purpose and those eligible for health funding receive it.	500	Full process review completed & next steps/change in processes agreed. Invest to save support, including legal assistance, in process of recruitment
Test and challenge residential care - Reduce overall number of funded residential care placements by 20 per year	171	
Direct Payments Strategy - Targeted increase in recourse to direct payments as alternative to non-complex domiciliary care packages and complex care packages for MH & LD	500	A strategy has been developed and actions decided - review of structure for the administration of such payments will provide an immediate small reduction in spend.
Charging Policy and Annual Fee Increases - Increased client income through uplifts and more efficient processes following transfer of Income and Finance Team to Corporate Finance	250	Delays in the commencement of some charges, specifically Day Services, mean that achievement of the current year's target is unlikely.
Spend to Save Measures	-133	Delays in recruitment. Majority of posts now recruited and expected full activity will commence in August
<b>Other</b>		
Independent Child and Family Placements	1,300	This budget is subject to both fee and demand pressures. It is hoped that the implementation of a new practice model will see this forecast reduce over time.
External Domiciliary Care	1,225	These areas continue to be exposed to both demographic and cost pressures. Work to ensure all placements are appropriate and cost effective continues.
External Residential Care	237	
Internal Staffing and Services	-974	Tight vacancy/contract management has resulted in underspends in this area.
Third Party Spend	-97	
MHLD Complex Care	1,189	This is a continuation of the previous years' overspend and remains an area of extreme pressure. Additional budget has been allocated but is being outstripped by both pressures on demand and fee levels.
<b>Overall Variation</b>	<b>6,532</b>	

The Social Services position is due to a combination of both unachieved savings and fee and demand pressures across externally commissioned services. Significant management action will follow to improve this position in year.

### Education

Variance	£000	Explanation and Action
<b>Savings Variations</b>		
Further assumed reductions in Regional Consortium School Improvement Grant - matching funding requirements.	11	This variation has occurred due to a requirement for the Council to maintain match funding at the same cash levels as 2017/18. This is despite an 11% reduction in the value of the grant. Officers will seek to identify alternative savings to manage this and other in year pressures.
<b>Other Variations</b>		
Servery	30	Estimated costs for the refurbishment of the civic centre servery – agreed as part of commissioning review on the assumption that the cost will be offset over time by future reduction in net cost of the provision
Savings to be found	-41	Savings proposals for future years will be scrutinised to seek to identify plans that can be brought forward.
<b>Overall Variation</b>	<b>0</b>	

It is currently felt that the service is in a position to deliver an outturn in line with budget for the year.

### Poverty & Prevention

All 2018/19 savings targets are believed to be achievable and the service is forecast to deliver a balanced budget.

### **Director of Place**

A number of issues need to be highlighted for the purpose of visibility. These include unfunded budget pressures as follows:

- Significant increased electricity costs of £321k
- Reduced recycling prices in waste management of £300k to £350k
- Increased costs for maintaining and replacing aging social services fleet £636k

In year savings of £590k have been identified as not being achieved at year end and these comprise mainly of Commissioning Review (Corporate Building & Cultural Services) savings and Integrated Transport Unit savings.

In addition there are some challenges in achieving all of the “cross cutting” saving identified for 18/19 in particular

- Sickness reduction of £400k which requires a change in policy to reduce sickness costs

The directorate is working to offset these spending pressures within its overall budget but at this stage it is likely that further decision will have to be made around fleet and sickness to be able to offset these costs and return a balanced budget.