



Report of the Cabinet Member for Economy & Strategy

Cabinet – 15 August 2019

Revenue and Capital Budget Monitoring 1st Quarter 2019/20

| | |
|------------------------------------|---|
| Purpose: | To report on financial monitoring of the 2019/20 revenue and capital budgets, including the delivery of budget savings. |
| Policy Framework: | Budget 2019/20 Transformation and Future Council (Sustainable Swansea – Fit for the Future) |
| Consultation: | Cabinet Members, Corporate Management Team, Legal and Access to Services. |
| Recommendation(s): | It is recommended that: <ol style="list-style-type: none"> 1) The comments and variations in this report, and the actions in hand to address these, are noted. 2) That Directors develop and rapidly bring forward sufficiently detailed plans to assure Cabinet that service budgets can be sustainably brought back into line for 2019-20 and beyond. 3) That the consequences of continued service overspending are that no officer may consider any material further spending commitments until those savings plans are assured. |
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1. Background and Introduction

- 1.1 This report details forecast variations from the agreed budget for 2019/20, 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 February 2019
 - Variations arising from other service pressures not directly linked to specific savings plans (e.g. increased service demand, price and pay inflation, increased, but most often unfunded, regulatory obligations and burdens from both UK and Welsh governments)
- 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.
- 1.4 The report also includes the latest completed Savings tracker summary in Appendix C that indicates the current overall forecast delivery % of the various savings streams by the services is at 79%. Any shortfalls in achieving savings will be reflected in the table at 2.3 and in Appendix A.

2. Revenue Outturn Forecast Based on 1st Quarter Position

- 2.1 Appendix 'A' to this report details the approved Revenue Budget for 2019/20 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 (which posted a deficit in 2018-19 of £0.3m though in previous years has returned 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

| | FORECAST VARIATION 2019/20 £000 | SAVINGS VARIATION 2019/20 £000 | OTHER VARIATION 2019/20 £000 |
|---|--|---|---|
| RESOURCES# | 1,111 | 1,777 | -666 |
| PEOPLE - SOCIAL SERVICES# | 1,424 | 1,215 | 209 |
| PEOPLE - EDUCATION | 1,803 | 0 | 1,803 |
| PLACE | 0 | 822 | -822 |
| <i>NET DIRECTORATE EXPENDITURE</i> | 4,338 | 3,814 | 524 |

To reflect operational management and reporting hierarchy the majority of Poverty & Prevention budgets (£4,510,000) and any forecast variations are now included as part of the Social Services budget. The remaining budget and any related forecast variation (£101,000 re Community Integration Unit) is now included within Resources.

- 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 service overspend remains a significant risk and needs to be addressed on a whole Council basis as it remains unsustainable to continuously spend more than budgeted, especially so given the position is helped only temporarily by one off grant funding sources . A number of the overspend areas follow on from the outturn position for 2018/19 and need to be considered in the light of the forecast savings going forward within the 2019/20 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;
 - spending control on all vacancies and contracts;
 - a continued reminder that **no Responsible Officer is authorised to overspend their budget in line with Financial Procedure Rules;**
 - and consequently that Directors will rapidly bring forward to Cabinet and Corporate Management Team detailed and realistic mitigation plans to contain service overspending.
- 2.8 Offsetting opportunities do exist to temporarily ameliorate the currently identified service demand and price 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.
 - £2m was also set aside to meet any specific and significant inflationary increases arising in year. A Commercial savings target was held corporately in 2018/19 and initially 2019/20. Any actual contract/procurement savings were delivered within services and not allocated to this central target. For 2019/20 this total has been allocated to services and is funded from the Inflationary provision to avoid double counting against previous contract procurement savings. Given the overall financial projection at this stage it is proposed by the S151 officer that £1.1m is allocated to services to cover commercial pricing pressures and the remaining

£0.9m be conserved for now as a hedge against potential service over spending . The most likely area needing further budgetary support in year for inflation costs is Social Services given a range of contract renewals and re-tenders and continued fragility of some providers in the market.

- Use of the Contingency Fund as detailed below.

3. Contingency Fund Provision for 2019/20

3.1 The contingency fund is set at the £7.072m contribution for 2019/20 as set out in the budget report approved by Council in February 2019. This is significantly higher than in recent years reflecting additional mitigation against any repeated overspending.

3.2 The current potential calls on the contingency fund for 2019-20 are:-

| Contingency Fund 2018/19 | Prediction |
|--|-------------------------|
| | 2019/20 (£m) |
| Contribution for year | 7.072 |
| One off interim support arrangements for Chief Executive and ongoing regional working – a sum up to | -0.072 |
| One off support to a range of events celebrating the 50 th anniversary of the granting of city status to Swansea - a sum up to | -0.150 |
| Support for Swansea Community Awards | -0.001 |
| ER/VR in year costs if ultimately exceeding balance on Restructure Reserve of £3m (this is currently not expected to be needed on basis of levels of ER/VRS) | 0.000 |
| Service overspend mitigation £3.438m and mitigation for future spend risks/demand and regulatory pressures/Inflation £3.411m | 6.849 |
| Balance 31st March 2020 | 0 |

The above table lists current 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.

As set out in the 2018-19 Revenue outturn report to members some £3m remained within the Restructure Reserve to contribute toward ER/VR costs in 2019-20. The S151 officer proposes that any such costs over and above this £3m will be funded via the contingency. The final costs of ER/VR will only be known towards the end of the year once all management actions re savings proposals etc are implemented.

At this stage it is assumed that all ER/VR costs will be able to be contained within the sum left in the Restructure Reserve.

The S151 officer proposes that ,as set out in Appendix A, the forecast shortfall in the funding of service costs for 2019-20 of £3.438m (Service overspends of £4.338m less unallocated Inflation provision £0.9m) will be met in full from the Contingency fund. That the remaining balance on the Contingency Fund of £3.411m be provisionally allocated to mitigate any potential additional spend risks/ demand and regulatory pressures/ pay and price inflation arising in the financial year.

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 current indication is that ,for 2019-20, there still needs to be urgent and decisive action to pursue and deliver all savings proposals 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 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 2019/20
- Progressing implementation of Commissioning Reviews and Cross Cutting Themes.
- Further implementation of the Social Services Saving Plan through which we have identified mechanisms for bringing down overall costs.
- Continuing 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 £4.338m of shortfall in service revenue budgets, offset by £0.9m of identified additional savings from the non-allocation of the Inflation provision together with utilising £3.438m from the use of the Contingency Fund.

4.2 Corporate Management Team have reinforced the expectation that both service and overall net expenditure must be contained within the relevant 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 2019/20 for other corporate items are capital finance charges. At this early stage no variance is forecast, in any case any underspending or overspending will be transferred at year end to or from 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 remains an urgent need to identify and implement existing and additional budget savings across all Council Services to improve the 2019/20 position and beyond.
- 4.6 There remains a degree of confidence that some further 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 pay and price pressures (including potentially another 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 The Section 151 Officer has considered professional advice given as to funding levels within the Insurance Reserve and notwithstanding the ongoing modest draws from the reserve over the duration of the MTFP to help support the revenue budget, he is satisfied there is at least a further £2.648m of headroom (over funding) beyond that reasonably likely needed to meet future claims. This enables a transfer to be made between earmarked reserves and bolster the capital equalisation reserve yet further in anticipation of the substantial future capital spending which remains to be predominantly financed from unsupported borrowing.
- 4.10 It is imperative that sustainable base budget savings are found to replace these in year one off actions to stabilise the 19-20 budget ahead of an anticipated extremely challenging and uncertain 2020-21 budget round.

5. Capital Budget

- 5.1 Expenditure to 30th June 2019 is £11.756 million, summarised as follows:

| Directorate | Budget 2019/20 | Actual to 30/06/19 | % spend |
|----------------------|---------------------------|-----------------------------------|----------------|
| | £'000 | £'000 | |
| Corporate Services | 6,484 | 339 | 5.2% |
| People | 26,662 | 785 | 2.9% |
| Place (General Fund) | 68,115 | 5,248 | 7.7% |
| Place (HRA) | 71,989 | 5,384 | 7.5% |
| Total | 173,250 | 11,756 | 6.8% |

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. Forecast changes to levels of borrowing and a reduction in the pooled rate of interest could lead to a reduction in finance costs however, it is too early in the year to make an accurate projection.

7. Legal Implications

- 7.1 There are no legal issues contained within this report.

8. Equality & Engagement Implications

- 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 2019/20
- Appendix B – Directors comments on variances
- Appendix C – Savings tracker summary
- Appendix D - Expenditure on major Capital Schemes

Appendix A

REVENUE BUDGET PROJECTION QUARTER 1 2019/20

| <u>DIRECTORATE</u> | BUDGET 2019/20 £000 | PROJECTED 2019/20 £000 | VARIATION 2019/20 £000 |
|--|------------------------------------|---------------------------------------|---------------------------------------|
| RESOURCES | 45,593 | 46,704 | 1,111 |
| PEOPLE - SOCIAL SERVICES | 120,831 | 122,255 | 1,424 |
| PEOPLE – EDUCATION | 170,821 | 172,624 | 1,803 |
| PLACE | 56,058 | 56,058 | 0 |
| <i>NET DIRECTORATE EXPENDITURE</i> | 393,303 | 397,641 | 4,338 |
| SPECIFIC PROVISION FOR APPRENTICESHIP LEVY/INFLATION | 1,850 | 950 | -900 |
| CONTINGENCY FUND | 6,849 | 3,411 | -3,438 |
| <i>OTHER ITEMS</i> | | | |
| LEVIES | | | |
| SWANSEA BAY PORT HEALTH AUTHORITY | 86 | 86 | 0 |
| CONTRIBUTIONS | | | |
| MID & WEST WALES COMBINED FIRE AUTHORITY | 12,971 | 12,971 | 0 |
| <i>CAPITAL FINANCING CHARGES</i> | | | |
| PRINCIPAL REPAYMENTS | 14,478 | 14,478 | 0 |
| NET INTEREST CHARGES | 18,119 | 18,119 | 0 |
| <i>NET REVENUE EXPENDITURE</i> | 447,656 | 447,656 | 0 |
| <i>MOVEMENT IN RESERVES</i> | | | |
| GENERAL RESERVES | 0 | 0 | 0 |
| EARMARKED RESERVES | -4,730 | -4,730 | 0 |
| <i>TOTAL BUDGET REQUIREMENT</i> | 442,926 | 442,926 | 0 |
| DISCRETIONARY RATE RELIEF | 400 | 400 | 0 |
| <i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i> | 443,326 | 443,326 | 0 |
| COMMUNITY COUNCIL PRECEPTS | 1,465 | 1,465 | 0 |
| <i>TOTAL REQUIREMENT</i> | 444,791 | 444,791 | 0 |
| <i>FINANCING OF TOTAL REQUIREMENT</i> | | | |
| REVENUE SUPPORT GRANT | 242,197 | 242,197 | 0 |
| NATIONAL NON-DOMESTIC RATES | 80,014 | 80,014 | 0 |
| COUNCIL TAX - CITY AND COUNTY OF SWANSEA | 121,115 | 121,115 | 0 |
| COUNCIL TAX - COMMUNITY COUNCILS | 1,465 | 1,465 | 0 |
| <i>TOTAL FINANCING</i> | 444,791 | 444,791 | 0 |

Directors comments on budget variances

Appendix B

Director of Resources

| Variance | £000 | Explanation and Action |
|--|-------|---|
| <u>Savings Variation</u> | | |
| 18/19 Sustainable Swansea Savings targets: | | |
| 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. Limited opportunities are available regarding shared services and the regional working options are very slow in progressing, with little if any appetite across other organisations. Further Proposals and plans are being discussed. |
| Service review/regional working/shared services | 239 | |
| Stopping or reducing services through new ways of working | 597 | |
| 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. Alternative savings are now being sought in legal however this is proving difficult with the additional pressures from savings already made in staffing. |
| Establishing Business Support hubs in the People and Place Directorates | -79 | An additional saving as a result of implementing the 'One Council' approach to Business Support. |
| 19/20 balance | -125 | Additional savings as a result of vacancy freeze and delay in appointing staff. |
| 16/17 & 17/18 saving targets | 531 | The savings identified in previous years requires changes to terms and conditions or the potential stopping of services, this to date has not had support and remains an area of further investigation before anything is recommended or agreed. |
| Sub total | 1,301 | |
| Other saving targets: | | |

| | | |
|---|-------|--|
| Transfer and review of the Welsh Translation Unit, including cost and charges | 170 | The Welsh Translation Unit is reviewing ways of working however, the demand for Welsh translation continues to increase. In order for the Council to meet its statutory responsibilities and statutory deadlines for certain reports further budget reductions are not possible. External translation services are now being used to help with capacity, which impacts the budget. Although the team will continue to improve and change processes and ways of working, including the use of technology, it is anticipated this saving can not be achieved due to rising demand. |
| 16/17 Communications model & Corporate Health & Safety/Wellbeing | 306 | This saving is challenging with the identified model of merging the marketing and communications from across the council into one team not able to progress. In addition the increase in demand in the referrals to occupational health has not enabled the growth of this area to become income generating due to all spare capacity being used internally. |
| Total | 1,777 | |
| Other Net Underspends | -666 | Legal underspends £-279k, Finance underspends CTRS £-350k & staff savings £-200k |
| | | |
| Total Variation | 1,111 | |
| | | |

Corporate Services underwent significant change in 2017/18 which followed into 2018/19, in order to realise savings and rebalance the budget.

The Directorate has proactively and strictly managed any overspending in Quarter 1, and as a base budget has performed well. The legacy savings from the previous years have affected the budget and have created an overspend position in Qtr 1.

Detailed plans and proposals are in place for all of the variances above, however there will be some difficulty in achieving these savings in the current year.

Director of Social Services**Social Services**

| Variance | £000 | Explanation and Action |
|---|------|--|
| Savings Variation | | |
| Implement preferred options as outcome of Commissioning Review (Learning Disability, Physical Disability & Mental Health service provision) | 500 | This project continues with dedicated resource and senior management input. Initial retendering exercise underway. The continued effect of increases to minimum wage and the need to diversify the supplier base may cause some costs to increase. |
| Review of CHC Arrangements/LD MH Right Sizing and Review | 334 | This project has had some success in identifying individuals eligible for third party funding. This work continues. |
| Review all packages of care to ensure fit for purpose and effectively manage new admissions to domiciliary care. | 81 | Domiciliary care continues to be subject to significant demand pressures. Rightsizing work is therefore likely to release capacity rather than reduce spend. |
| Direct Payments Strategy - Targeted increase in recourse to direct payments as alternative to non-complex domiciliary care packages | 300 | Savings in this area continue through reviews of allowances paid and, where appropriate, the reclaim of unused balances. |
| Other | | |
| Independent Child and Family Placements | 745 | 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. |
| Fostering Fees | 150 | The full year effect of a requirement to increase fees paid to family and friends carers will see costs increase. |
| External Residential Care | 84 | These areas continue to be exposed to both demographic and cost pressures. Work to ensure all placements are appropriate and cost effective continues. |

| Variance | £000 | Explanation and Action |
|--------------------------------|--------------|--|
| Internal Staffing and Services | - 2,459 | The council has received a number of grants in the current year that support the overall financial position. Work to ensure services are designed in a way that enables the Council to access all funding sources continues and will cause significant underspends to appear in these initial stages. Work to rebalance the Service's budgets is underway. |
| Third Party Spend | 70 | In addition, the service continues to maintain tight vacancy and contract management |
| MHLD Complex Care | 1,619 | This is a continuation of the previous years' overspend and remains an area of extreme demand and price pressure. Additional budget has been allocated but is being outstripped by both pressures on demand and fee levels. |
| Overall Variation | 1,424 | |

The Social Services position is due to a combination of both unachieved savings and fee and demand pressures across externally commissioned services. Management action will continue to seek ways of safely reducing the net cost of our services. Much of the funding enabling the internal services underspend underpinning overspends in commissioned services is time limited. The sustainability of this approach is subject to future budget decisions of both the Welsh and Westminster Governments.

Director of Education

| Variance | £000 | Explanation and Action |
|---------------------------|------|--|
| Home to School Transport | 344 | Inflationary fuel price pressures and continuing demand, particularly within the ALN and post 16 sector continue to increase costs. These demand and price pressures are inherently volatile and uncontrollable within current transport policy. |
| Catering and Cleaning | 290 | The service continues to be subject to substantial inflationary pressures on the cost of food and staff. This has been partially offset by a combination of management cost control and positive take up of paid meals. Further means of reducing net cost are being examined. |
| Additional Learning Needs | 400 | This forecast primarily concerns the cost of placements within Independent Special Schools. The Council continues to see both cost and demand pressures in this area, despite continued efforts to increase the supply of such places locally. Should |

| | | |
|---|-------|--|
| | | demand for such placements continue to rise, this forecast will increase. |
| Centrally funded non-delegated pressures. | 769 | This overspend is primarily attributable to ongoing historic pension costs borne by the Council on behalf of Schools. It also includes increases in the cost of maternity/paternity leave. |
| Overall Variation | 1,803 | |

Many of the pay, price and demand pressures identified above are a continuation of the overspend position from 2018/19. Ongoing robust management action will continue. This will seek to mitigate pressures and bring forward additional savings where possible.

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 £246k
- Reduced recycling prices in waste management of £300k to £350k
- Increased costs for maintaining and replacing aging social services fleet £300k

In year savings of £704k have been identified as difficult to achieve by year end and these comprise mainly of Commissioning Review (Service in the Community), IT delays for rollout of mobile working and delayed and “cashable” Integrated Transport Unit savings and transport savings removed budget but authorisation to implement withdrawn

In addition there are some challenges in achieving all of the “cross cutting” saving requiring policy changes identified for 19/20 in particular

- Staff – Christmas closure, average holiday pay, 50% Honoraria reduction, 50% market supplement reduction and remove first aid payments (total £118k)

The directorate is working to offset these spending, predominantly price, pressures within its overall budget but at this stage it is likely that further decisions will have to be made in year to be able to offset these costs and return a balanced budget.