

Report

Cabinet



Part 1

Date: 13 February 2019

Item No: 5

Subject **December Revenue Budget Monitor**

Purpose To highlight the current forecast position on the Council's revenue budget and the risks and opportunities that present themselves within the December position.

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Ward All

Summary Newport City Council's budget for 2018/19 is £274.6m, which supports delivery of over 800 activities which are focused on the overall mission - "Improving People's Lives". As at December 2018, the Council's revenue budget is forecasting an underspend of (£1,750k), which is 0.6% of the agreed budget. This position includes the use of all revenue budget contingencies and a significant one-off VAT rebate received in the year.

In common with all authorities across the UK, our financial position is challenging. In particular, the services where it is difficult to control demand are facing very significant cost pressures, leading to an overall service area overspend of £4,745k (excluding schools). Some of the key areas facing significant demand are listed within para. 1.1.

The forecast overspend in service areas has been balanced by underspending/ better income in non-service areas, use of the budget contingencies and a significant one-off income received in the current year. These, together, come to £6,495k and are listed in para. 1.2.

In addition, the vast majority of schools are forecasting overspending on their approved, available funding, in total by £1,920k. This forecast includes additional grant income recently received from Welsh Government of £1.6m, of which £1.2m was already included in previous forecasts. Whilst this one off grant funding has improved the in year schools position the level of overspending remains significant and will reduce individual schools reserves to almost zero.

In summary:

- service area overspending is at challenging levels and whilst the overall forecast position is showing an underspend, this is mainly due to one off income and continued underspending in non-service budgets which cannot be guaranteed into the future;
- undelivered savings will cause pressures for future years' budget setting if these remain undelivered;
- the vast majority of schools will spend more than their available funding in 2018/19.

Appendix:

Appendix 1	Overall budget dashboard – December 2018
Appendix 2	Revenue summary monitor – December 2018
Appendix 3	Revenue summary monitor by activity – December 2018
Appendix 4	Schools funding and balances
Appendix 5	Planned movement in reserves

Proposal

Cabinet is asked to:

- Note the overall budget forecast position including use of all budget contingencies to balance forecast service overspending;
- Agree to instruct all areas of the Council to maintain robust financial management;
- Note the level of undelivered savings within each directorate and the risks associated with this;
- Note the forecast movements in reserves;
- Note the projected balances of individual schools over the next year;

Action by

Cabinet Members / HoF / SLT / CMT confirm plans to:

- promote and ensure robust forecasting throughout all service areas;
- reduce service area over-spending;
- manage/ mitigate those projects that are unable to deliver required Medium Term Financial Projection (MTFP) savings.

Timetable

On going

This report was prepared after consultation with:

Chief Executive
Strategic Directors
Head of Finance
Heads of Service
Budget Holders
Accountancy Staff

Signed

1. Overview

1.1 Newport City Council's budget for 2018/19 is £274.6m, which supports delivery of over 800 activities. Like previous years, the Council has maintained good financial control in overall terms and will have a small, positive variance of only 0.6% in this current year - £1,750k. Like other Councils, there are significant challenges however:

- As shown in appendix 3, most service areas / activities are spending close to budget but a small number are significantly overspending - £4,745k in overall terms. The key issues reported to Cabinet throughout the year still feature within the 2018/19 forecast position and we have seen demand and resulting overspending worsen as the year has progressed to date.

- (i) Children's out of area placements - £2,032k overspend (October - £1,741k overspend)
- (ii) Special education needs - £1,428k overspend (October - £1,343k overspend)
- (iii) Adults community care - £1,103k overspend (October - £1,239k overspend)
- (iv) Independent fostering agencies - £747k overspend (October - £685k overspend)

Whilst the collective forecast overspend in these areas continues to increase £5,310k (October - £5,008k) other areas are underspending against budget therefore providing one off mitigation for these pressures, bringing the overall revenue budget to a small underspend position.

1.2 These overspends have been balanced by underspending/ better income in non-service budget areas and use of the budget contingencies which come to (£6,495k). These are one-off in nature and cannot be guaranteed in the future. Therefore, service area overspending represents a significant risk in the future. Key areas of underspending / one-off income include:

(i)	People Services risk contingency	(£2,200k)
(ii)	Council tax benefit rebates	(£1,729k)
(iii)	General contingency	(£1,473k)
(iv)	Other	(£935k)
(v)	One-off VAT rebate	(£773kk)
(vi)	Council tax surplus	(£1,000k)
(vii)	One-off additional rebate Gwent Crematorium	(£385k)
(viii)	Approved transfer to invest to save reserve	<u>£2,000k</u>
		(£6,495k)

2. Key areas contributing to position

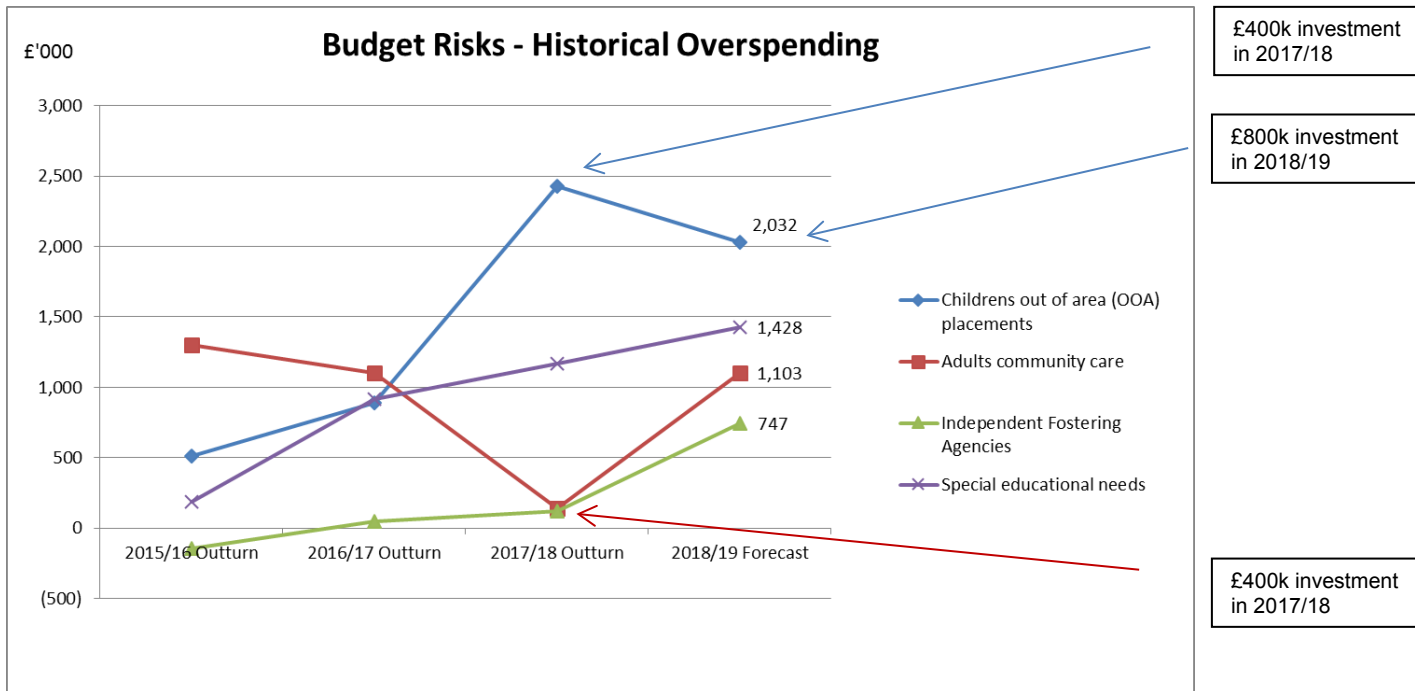
2.1 The following section highlights the key areas that contribute to the overall Council position:

- (i) on-going budget pressures on a small number of Council activities;
- (ii) forecast delivery of 2018/19 savings (and previous years) to date;
- (iii) other key emerging risks/ opportunities.

(i) On-going budget pressures

2.2 As highlighted within the overall dashboard (appendix 1) there are a very small number of areas which contribute over £5m to projected service area overspends. These are not 'new' issues but those that continue to increase as demand for these services grow. Forecasts have been worsening throughout the year in many of these areas. The following is a graphical representation of level of overspends that these areas have reported since 2015/16.

2.3 The key message here is that despite annual investment into these areas, with the exception of children's out of area placements, demand and therefore costs have continued to grow beyond the level of investment.



2.4 The level of forecast overspending within service areas has significant consequences for the Council’s work on its medium term financial projections (MTFP) and planning. In the context of pressure and uncertainty on Council’s funding levels, the increased demand and cost is a significant pressure on future year’s budget planning and the driver for requiring ever increasing savings from Council services. Therefore, managing demand and reducing costs in service provision are key priorities in terms of financial management in going forward, though the challenge of managing ‘demand’ in these areas are clearly significant and difficult.

2.5 Included in this Cabinet is a paper on the proposed final budget 2019/20. In that, significant investment is highlighted for the main areas of overspending, including further investment over and above what was proposed at the draft budget stage in December. This acknowledges the increasing cost pressures in these areas and the need to invest in them to ensure budgets in going forward are robust.

(ii) Delivery of medium term revenue savings:

2.6 Page 2 of the overall dashboard (appendix 1), ‘2018/19 forecast delivery of savings’, shows good performance on achievement of savings with 92% of total savings forecasted for full delivery. The balance of almost £682k, however, remains significant in financial terms. An assessment of undeliverable savings has informed the 2019/20 budget process and officers continue to deliver these residual agreed savings still outstanding.

(iii) Other emerging risks/ opportunities

2.7 Other emerging risks which have arisen due to increased demand during this year’s monitoring are shown within appendix 1 – ‘other significant variances’.

3. Schools

- 3.1 The 'Schools' section of the overall dashboard (appendix 1) outlines the sectors that are forecasting negative balances at the end of the year and the trajectory of reserve movements over the last two years.
- 3.2 Forecast school balances as at 31st March 2019 highlights that most schools will have much reduced reserves at that time due to forecasted net overspending in the current year of £1,920k. Recent announcements from Welsh Government on additional funding of £1.6m for schools in 2018/19 has reduced the level of anticipated overspend, though not significantly as £1.2m was already forecasted. School reserves are still likely to reduce in 2018/19 and schools will need to take appropriate action in 2019/20 to match costs to their available funding as current levels of overspending cannot be sustained.

4. Use of reserves

- 4.1 Appendix 5 illustrates the planned movements in reserves throughout the year. Cabinet should note the opening balance as at 31st March 2018, forecasted planned transfers in/ (out) of reserves in 2018/19 and the forecast balance as at 31st March 2019. Current projections suggest that 11% of the Councils reserve will be used by the end of the financial year which is in line with planned and expected use. The general fund reserve is at the minimum level required (£6.5m) representing 2% of the overall net budget.

5. Timetable

Ongoing

6. Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Risk of overspending	H	M	Regular forecasting and strong financial management Revenue budget contingency	
Poor forecasting	M	M	Better forecasting in non-service areas where large variances occurred in 16/17 Review and refinement in service areas of risk based predictive models CX/HoF setting out clear expectations	AHoF SFBP's and budget managers CX / HoF

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Strong financial management underpins services and medium term financial planning.

Options Available and considered

In terms of the financial position and financial management, there are no options – the Council needs to operate within its overall budget and that is being achieved, though monitoring highlights key challenges in some small number of areas, including schools.

The proposed 2019/20 revenue budget deals with a significant amount of the current pressure and the issues and risks around this are shown in that report.

Preferred Option and Why

To continue careful review and management of key budgets and risks.

Comments of Chief Financial Officer

The current forecast points towards significant pressure on a small number of service budgets and the under-spend comes mainly from one-off sources, with the inherent risks that come with this given that these cannot be guaranteed for the future, at current levels at least.

On-going demand in People services and associated costs are key considerations in the Council's future budget work as highlighted in the 2019/20 Revenue budget report to this same Cabinet, to ensure budgets set are robust and deliverable. A number of initiatives to manage demand and look at better/cheaper service provisions in these areas are progressing well and will help reduce the pressures here.

There are a number of 2019/20 budget risks and uncertainty around Brexit and consequences of that which needs to be considered when deciding on what use to make of any underspend in the current year. This will need to be reviewed between now and the year-end before any conclusions are made and decisions confirmed.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report, at this stage.

Comments of Head of People and Business Change

The report on the revenue monitor does not show any specific staffing issues, although clearly issues will arise if robust monitoring and management of budgets does not take place.

The report notes that any future reductions in funding will need to reflect and be consistent with the sustainable development principle's five ways of working in the Wellbeing of Future Generation (Wales) Act 2015.

Comments of Cabinet Member

The current financial position shows the Council is managing its financial risks well. The areas of overspending are concerning and the Cabinet will be coming forward with funding solutions for those in our final budget proposals for 2019/20. Managing demand in going forward will continue to be a challenge the Council must deal with, as best as possible.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

N/A

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

This update is against a backdrop of prolonged pressure on public services as a combination of reduced income, rising demands on services, increased expectations, compliance with new legislation and the increasing costs of running services which has seen the delivery of significant budget savings over the last five years. Any future reductions in funding will need to reflect and be consistent with the five principles underpinning the Wellbeing of Future Generation (Wales) Act 2015.

Consultation

N/A

Background Papers

Dated: