

**TITLE OF REPORT:** Revenue Budget - Third Quarter Review 2018/19

**REPORT OF:** Darren Collins, Strategic Director, Corporate Resources

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### **Purpose of the Report**

1. This report sets out the latest monitoring position on the 2018/19 revenue budget at the end of the third quarter to 31 December 2018. Cabinet is asked to note the contents of the report and recommend to Council the use of up to £2.1m capital receipts to finance the 2018/19 revenue budget.

### **Background**

2. Cabinet receives quarterly reports on the agreed revenue budget so that any variances can be identified and addressed. This report sets out the revenue monitoring position at 31 December 2018.
3. Council agreed the original revenue budget for 2018/19 on 22 February 2018. This was set at £203.466m.
4. The projected outturn for 2018/19 at 30 September 2018 was an over spend of £5.189m. This included planned use of £4.582m of reserves, plus £1.337m from the Strategic Revenue Investment reserve and this was reported to Cabinet on 20 November 2018. The Cabinet report identified that management would continue to seek to deliver the outturn within the original estimate.
5. Following the November 2015 Spending Review, the Government announced that it would introduce additional flexibility for the period of the Spending Review to enable Local Authorities to use capital receipts from the sale of non-housing assets to fund the up-front revenue costs of service reform and transformation provided there is a clear link to the generation of future ongoing revenue savings. In February 2018 Cabinet and Council noted the ability for this additional flexibility to fund the revenue costs of transformational projects.

### **Proposal**

6. Without any further action the projected outturn for 2018/19 at 31 December 2018 is £206.840m compared to the budget of £203.466m, this represents an overspend of £3.374m. The over spend is mitigated by additional Government funding of £2.135m resulting in an overall projected over spend of £1.239m. The projection for the year includes the planned use of £4.612m of reserves.

7. Active management by Corporate Management Team and the wider Leadership Team of the Council will aim to ensure that spending for the year remains contained within the current estimate. No change in the total revenue budget is therefore recommended in this report. The overall budget position will continue to be subject to close review as services change to deliver the Council's Thrive policy priorities.
8. In the Spending Review 2015 the Government announced that Local Authorities could use capital receipts to meet the revenue costs associated with the delivery of transformational and reform projects which deliver the key criteria of generating ongoing revenue. Throughout the year the Council has reviewed revenue schemes to identify expenditure which meets the qualifying criteria to be funded through capital receipts in year. In total £2.1m of qualifying revenue expenditure has been identified within the budget in the following areas of delivery:
  - **Digital and IT (£1.1m)**: developing new systems to streamline process to reduce demand /or generate efficiency savings
  - **Ways of Working – internal (£0.8m)**: realign business process and structures to improve ways of working to drive efficiencies and savings, reduce demand or generate additional income
  - **Ways of Working – with partners (£0.2m)**: working with partner public sector bodies to find more efficient ways of working to generate efficiencies and savings and reduce demand.
9. It is estimated that Capital Receipts of around £2m will be received in year, it is proposed that the option to apply the capital receipt flexibility in-year to qualifying revenue expenditure be approved. Cabinet is asked to recommend to Council that up to £2.1 capital receipts flexibility is utilised within 2018/19 to fund the revenue costs of transformational projects.
10. Key budget variances, although lower than in the second quarter, have continued in the third quarter in respect of Social Work – Children & Families. Action plans to address the areas of over spend will remain under review. The agreed savings for 2018/19 will continue to be actively monitored to facilitate delivery of the approved budget.
11. It is important that effective budget monitoring and action planning is in place to ensure that spending in 2018/19 is contained within approved budgets as this will contribute to a sustainable financial position for the Council. Any over spend at the end of the financial year will result in the 2018/19 funding gap being increased and reserve levels being reduced which will impact on the financial plans of the Council.

## Recommendations

12. It is requested that Cabinet:
  - Notes the Council's revenue expenditure position at 31 December 2018, as set out in Appendix 1.
  - Recommends to Council the use of up to £2.1m capital receipts flexibility on the areas identified within paragraph 8 of the report to fund the revenue costs of transformational projects included within the 2018/19 budget.

For the following reason:

- To contribute to sound financial management and the long-term financial sustainability of the Council.

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### **Policy Context**

1. This report meets the standards required to comply with the Accounts and Audit Regulations 2015. It is also consistent with Vision 2030 and the Council's objectives of making Gateshead a place where everyone thrives by ensuring a sustainable long term financial position.

### **Background**

2. The Accounts and Audit Regulations 2015, which represent financial management good practice, recommend that councillors should receive regular reports on performance against revenue and capital budgets. The frequency of the reports is determined following a risk assessment of the budget, and Cabinet currently receives a report on a quarterly basis.
3. This report sets out the latest position on the 2018/19 revenue budget as at 31 December 2018 and projects spending and income to the end of the financial year.
4. Council agrees the revenue budget and it also approves variations and revisions to the budget.
5. Council agreed the original revenue budget for 2018/19 on 22 February 2018. This was set at £203.466m.
6. The reported position includes £1.133m of additional funding that has been allocated by the Department of Health and Social Care to help councils alleviate winter pressures, £0.883m one off funding that will be re-distributed by government to the Council from the national business rate levy account surplus and £0.119m additional S31 grant in relation to business rate relief.
7. Capital receipts of £1.337m have been utilised to offset the costs of eligible projects within the financing of the budget and this has mitigated the projected use the Strategic Revenue Investment Reserve.
8. Appendix 2 details the proposed revised budget for 2018/19 compared to an assessment of the projected outturn for the year. Without any further action the projected outturn for 2018/19 results in a projected over spend of £1.239m
9. At the end of the third quarter of the year, the projected use of reserves is £4.612m.

### **Variations**

10. The main variances on a group basis are set out below.

### **Care, Wellbeing and Learning**

11. The projected over spend of £5.265m on Social Work - Children and Families relates mainly to placement expenditure and higher than expected employee costs. Action planning is continuing in this area.

12. The projected over spend of £0.936m on Early Help and Education relates to higher than expected direct payments, home to school/college transport costs and employee costs. There are also £0.403m of 2017/18 savings that have not been delivered. Specific action planning is continuing to address the over spend.
13. The projected under spend of £0.217m on Learning and Schools relates to an adjustment to the insurance payments for the Private Finance Initiative schools and lower than expected employee costs.
14. The projected over spend of £2.661m on Adult Social Care relates to service pressures and savings yet to be delivered which have been partially offset by the receipt of the winter pressures allocation. Action is being taken to reduce demand and package costs.

### **Communities and Environment**

15. The projected under spend of £0.525m on Street Scene relates to an over achievement of fleet and highways income.

### **Corporate Resources**

16. The projected under spend of £0.211m on Customer & Financial Services relates to an over achievement of income for fees and charges.
17. The projected under spend of £0.204m on IT Services relates to reduced employee costs and an under spend on general IT costs.
18. The projected over spend of £0.297m on Trading and Commercialisation relates mainly to an underachievement of income and over spends on employee costs within Leisure Services offset by various other operational areas within the service.

### **Other Services, Capital Financing and Trading and Investment income**

19. There is a positive contribution to the reported position as a consequence of less borrowing being undertaken than estimated within original budget estimates in line with the strategy of internal borrowing.

### **Summary**

20. The projected over spend as at 31 December 2018 of £1.239m is after the application of reserves in line with the usage agreed as part of 2018/19 budget.
21. For all projected over spends, regular monitoring will continue to take place with action plans being monitored with the aim of containing spending within the original budget. Plans will be incorporated into the internal monthly revenue monitoring timetable with regular updates to Corporate Management Team and with updates to Cabinet.

### **Reserves**

22. The £4.612m planned use of reserves includes £2.765m of Strategic Reserves and £1.848m of Ringfenced Reserves as follows:

### *Strategic Reserves*

- £1.114m Budget Flexibility Reserve
- £1.202m Economic Growth, Culture and Place Shaping Reserve
- £0.130m Discretionary Social Fund
- £0.069m Anti-Poverty Reserve

### *Ringfenced Reserves*

- £0.799m Grants and Contributions Reserve
- £0.202m Developers Contributions Reserve
- £0.847m Public Health Reserve

### **Balance Sheet Management**

23. Balance Sheet control accounts, which cover the Council's assets and liabilities, are reconciled on a quarterly basis. In addition, a number of key Balance Sheet control accounts are now reconciled on a monthly basis as part of the revenue monitoring process. This is part of a proactive approach to Balance Sheet management which should ensure the early identification of issues that may impact on the Council's financial position.
24. Key control accounts are assessed based on experience from previous years, materiality and reliance on third party data. Those key control accounts reconciled as at 31 December 2018 are operating satisfactorily.

### **Consultation**

25. The Leader of the Council has been consulted on this report.

### **Alternative Options**

26. There are no alternative options proposed.

### **Implications of Recommended Option**

#### 27. **Resources**

- a. **Financial Implications** – The Strategic Director, Corporate Resources confirms these are as set out in the report and Appendix 2.
- b. **Human Resource Implications** – There are no direct Human Resource implications as a consequence of this report.
- c. **Property Implications** – There are no direct property implications as a consequence of this report.

#### 28. **Risk Management Implication**

Regular budget monitoring and the associated action planning that arise from this activity assists in reducing the risk of the Council overspending its agreed budget. This enables effective financial planning which allows the Council to deploy resources in line with priorities.

29. **Equality and Diversity Implications** - Nil.
30. **Crime and Disorder Implications** - Nil.
31. **Health Implications** - Nil
32. **Sustainability Implications** – Regular budget monitoring and allocated actions contributes to the financial sustainability of the Council.
33. **Human Rights Implications** - Nil.
34. **Area and Ward Implications** - Revenue spending supports the delivery of services across the whole of Gateshead.