

# Southend-on-Sea Borough Council

Report of Strategic Director (Finance & Resources)  
to  
**Cabinet**  
on  
**25 June 2019**

Agenda  
Item No.

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**Revenue Outturn 2018/19 and Initial Budget Position for 2019/20**  
**Policy and Resources Scrutiny Committee**  
**Executive Councillor: Councillor Ian Gilbert**  
***A Part 1 Public Agenda Item***

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## **1 Purpose of Report**

To advise the Cabinet of the revenue outturn for 2018/19, and therefore the level of revenue balances going into 2019/20.

To advise the Cabinet of the implications of the outturn for opening budgetary position for 2019/20 budget and beyond

## **2 Recommendation**

- 2.1 That the in-year surpluses of £1.836M for the General Fund and £1.510M for the HRA for 2018/19 be noted;
- 2.2 That following due consideration, Cabinet approve the appropriation of revenue funds to and from earmarked reserves, as set out in paragraph 4.6 (General Fund) and paragraph 5.4 (HRA); and
- 2.3 That the initial budgetary position for 2019/20 and beyond indicated by the 2018/19 outturn be noted.

## **3 Background**

- 3.1 This report provides an overall summary of the revenue outturn for the financial year 2018/19. The 2018/19 accounts are subject to audit, but are not now expected to change. The report also considers the potential implications that the 2018/19 outturn holds for the opening budgetary position for 2019/20, and the possible mitigations available to deal with any resultant in-year pressures.

## **4 General Fund - £1.836M in-year surplus**

- 4.1 The table below summarises the revenue outturn for the General Fund and the consequential use of balances for 2018/19. The outturn has been prepared on

the assumption that all appropriations to and from earmarked reserves are approved. Councillors are invited to consider the appropriate level of appropriations later in this report.

Portfolio	Original Budget £000	Probable Outturn £000	Forecast Period 10 £000	Actual £000
Leader	10,936	11,477	11,416	10,885
Growth	3,081	3,264	3,272	3,000
Adults and Housing	42,877	41,408	41,518	40,932
Children and Learning	33,556	39,246	39,650	42,111
Healthy Communities and Wellbeing	13,636	15,274	14,784	16,960
Infrastructure	14,173	19,109	17,416	16,551
Public Protection	13,782	13,505	13,449	13,235
<b>Portfolio Net Expenditure</b>	<b>132,041</b>	<b>143,283</b>	<b>141,505</b>	<b>143,674</b>
Reversal of Depreciation	(28,281)	(32,703)	(30,415)	(29,945)
Levies	638	638	638	560
Financing Costs	8,542	8,262	8,270	7,576
Contingency	5,716	3,102	3,055	0
Pensions Upfront Funding	(3,734)	(3,734)	(3,734)	(3,734)
<b>Net Operating Expenditure</b>	<b>114,922</b>	<b>118,848</b>	<b>119,319</b>	<b>118,131</b>
Government Grants	(2,380)	(2,380)	(2,380)	(2,546)
Revenue Contribution to Capital	5,058	2,380	2,380	1,756
Contribution to / (from) Earmarked Reserves	5,436	6,040	4,586	7,245
<b>Net Expenditure</b>	<b>123,036</b>	<b>124,888</b>	<b>123,905</b>	<b>124,586</b>
Revenue Support Grant	(10,318)	(10,318)	(10,318)	(10,318)
Business Rates Top-up Grant	(12,085)	(12,085)	(12,085)	(12,618)
Retained Business Rates	(21,924)	(24,424)	(24,424)	(24,777)
Collection Fund Surplus	(2,500)	(2,500)	(2,500)	(2,500)
Council Tax	(76,209)	(76,209)	(76,209)	(76,209)
<b>Surplus</b>	<b>0</b>	<b>(648)</b>	<b>(1,631)</b>	<b>(1,836)</b>

- 4.2 The table above shows that net expenditure for 2018/19 totalled £124.586 million. This was £0.631 million (0.7%) above the month 10 forecast. However there has been further improvements to grants receivable in relation to Business Rates that more than compensates for the increase in net expenditure, meaning that overall the in year surplus has grown by a further £0.205 million to £1.836 million. This represents an additional appropriation to Earmarked Reserves. Given that the overall gross spend of the Council is in the region of £375 million, these variances are within acceptable parameters.

- 4.3 Councillors have been in receipt of budget monitoring information at each Cabinet meeting, so most variances have been well documented. 2018/19 has been a difficult year, seeing increases in demand and cost for Children's social care, with an increase in looked after children from 291 to 311 during the year, generating additional costs in placements and social worker numbers. Reliance has had to be placed on the use of earmarked reserves set aside for this purpose to compensate for the additional costs being incurred. Expenditure on the highway had to increase following the deterioration caused by weather conditions early in 2018, with at least 4,000 pot holes and 5,000 other highway defects being addressed, and was only partly compensated for by additional one-off government grant. Income targets across parts of the Council have proved to be challenging, but offset by in-year savings and income flows elsewhere.
- 4.4 This report concentrates on variances between the month 10 forecast and the outturn. Although the overall outturn is in line with the period 10 forecast, there are of course numerous under and overspends on individual services. In particular the year-end review of provisions for insurance, redundancies and bad and doubtful debts have been undertaken, resulting in the release of monies previously set aside back into the general fund. Additionally year end reviews are undertaken of revenue projects associated with particular grant streams. Where the project has not completed in year, the value of the unspent grant is carried forward through the use of earmarked reserves.
- 4.5 There are however a number of principal underlying variances between period 10 and the actual outturn:

	<b>£000</b>
Treasury Management	(694)
Increase in General Grants	(166)
Increase in Business Rate income	(886)
Various net overspends	73
Adult Social Care (older people and LD)	1,400
Children's Social Care (care packages, leaving care and staffing)	1,080
Housing Fraud write off	250
Parking Income and Management	410
Waste Management	(320)
Economic Development	(340)
ICT (staffing)	(380)
Highways and Street Works	350
Release of provisions no longer required	(800)
Housing Benefits (subsidy timing issue)	700
Various self-balancing appropriations valued at £2.659M, relating to business rate grants, review of insurance provisions and the carry forward of the spending power of service specific grants	
Write off of abortive expenditure on the New Museum and Art Gallery projects of £2.173M, offset by use of contingency budget	
Remaining unused contingency budget	(882)
<b>Total Variance</b>	<b>(205)</b>

## Appropriations to and from Earmarked Reserves

- 4.6 Set out below are the recommended appropriations to and (from) earmarked reserves, subject to the approval of Cabinet, annotated as appropriate where the appropriation is materially different from that planned. Apart from previously planned and self-balancing appropriations, additional appropriations are limited to transfers between reserves.

Reserve	Planned to period 10 £000	Self-Balancing* £000	Additional £000	Total £000
<b>Capital Reserves</b> The drawdown of capital reserves has been adjusted to match the level of revenue contributions towards capital expenditure.	(733)	457	0	(276)
<b>Corporate Reserves</b> It is proposed that the balance of the in-year surplus be transferred to the Business Transformation Reserve.	8,969	(147)	397	9,219
<b>Service Reserves</b> It is proposed that monies be transferred from other reserves, in particular to facilitate the on-going children's social care transformation work. In addition monies have been provided in the specific corporate projects reserve for the additional spend proposals made at March Cabinet	(2,138)	257	1,439	(442)
<b>Grant Reserves</b> Used to transfer the spending power represented by unused grant income between years	(1,512)	2,092	0	580
<b>Total appropriations to / (from) reserves</b>	<b>4,586</b>	<b>2,659</b>	<b>1,836</b>	<b>9,081</b>

\* Self Balancing appropriations are particularly those where an underspend in grant received is matched by a balancing underspend in expenditure, with the unspent grant being carried forward through earmarked reserves.

## Messages for 2019/20 and beyond

- 4.7 Notwithstanding the overall underspend achieved in 2018/19, it was on the basis of a mixture of potential on-going budgetary pressures and one-off savings and adjustments. A number of the on-going budgetary pressures seen in 2018/19 were provided for in setting the 2019/20 budget; however not necessarily to the extent of the final pressure seen, or in all areas.
- 4.8 Directors and all services are aware that it is vital that all budgets including approved budget reductions are delivered to plan not only to achieve a balanced outturn in 2019/20 but also to avoid putting further pressure on budget plans for future years. Part of being able to do so is to understand pressures inherited from the previous year, by way of increased demand and costs, and undelivered savings, and also newly emerging pressures in 2019/20.
- 4.9 Analysis has therefore been undertaken to provide insight into the messages contained in the 2018/19 outturn, alongside an initial review of 2019/20. Although there are a number of pressure areas across the Council, this process has thrown up two main areas; namely Children's Social Care and Planning and Transport.

## **Children's Services**

- 4.10 Children's services closed the 2018/19 financial year with a final £2.5M overspend, notwithstanding the agreed application of both ongoing and in year budget adjustments. As previously reported, these pressures have been mainly driven by an overall net increase in the numbers of children looked after over the last 3 years, more expensive residential care placements (due to market conditions), an increase in the number of expensive secured care placements required, as well as an increased case load demand on social workers.
- 4.11 These pressures are projected to continue into 2019/20. The Children's budget can also be particularly sensitive to changes in demand, with an average residential care placement costs £170,000 per annum. In setting the 2019/20 budget, some recognition was made of the pressures being experienced and funded from temporary resources by the addition of £1.8M across the Children's social care budgets, together with making arrangements to replenish the exhausted Children's social care earmarked reserve.
- 4.12 The Children's pressures have continued to grow since budget setting. Extrapolating forward the final spend in 2018/19, compared to the opening budget for Children Services gives an immediate 2019/20 opening budget pressures of £3.7M. The pressures centre around £2.1M for external private fostering, residential and secured placements, £550,000 leaving care placements and Unaccompanied Asylum Seeker, £250,000 Children with disabilities placement costs, £100,000 supporting families with no recourse to public funds, £500,000 staffing supporting increased social work case load, as well as a £200,000 shortfall against the budgeted troubled families' payment by results and grant income target. These numbers incorporate the impact of £250,000 of savings not being landed in 2018/19. At budget setting it was recognised that Children's Social Care was likely to face continuing budgetary pressure, and the decision was made to restore the earmarked reserve to £2M to assist if needed.

## **Planning and Transport**

- 4.13 Volatility in Planning and Transport budgets lies primarily around car parking income. At present there is no evidence of an opening pressure on this income target, but it is hugely weather dependent. Really good weather during holiday periods tends to drive higher parking revenues, with the opposite being true for bad weather. Good holiday weather could therefore mitigate a proportion of the observed pressures referred to below. However it is already apparent that there are pressures on the parking management budget of around £250,000.
- 4.14 There are income pressures arising from street work permits and rechargeable works. There has been an issue with the collection of street work permit income due to lack of evidence. Whilst this issue appears resolved going forward, it has exposed an underlying income shortfall of £600,000 against budget. This is exacerbated by an expected shortfall of £150,000 in relation to rechargeable works.

- 4.15 Routine maintenance costs on the highway and footways (otherwise known as ad-hoc patch and minor repairs) were forecast to overspend significantly in 2018/19. The Department for Transport provided a grant of £617,000 in year and although some was allocated to capital schemes, £400,000 was allocated to the patch and minor repairs budget. With no certainty of any similar funding being made available for 19/20 and in light of the costs incurred in the first 6 weeks of the year, a pressure of £450,000 is expected. This pressure incorporates the impact of £100,000 of savings not being landed in 2018/19 in this budget area.
- 4.16 Other pressures include £175,000 on the street lighting energy budget , £80,000 additional security at the Travel Centre and £180,000 for additional staff have been recruited into the highways inspection team in order to maintain the information gathered as part of the Highways Asset Management Plan.

### **Mitigations**

- 4.17 These finding are indications of the financial pressures facing services at the start of the new financial year, not firm forecasts of anticipated outturn at this stage. Directors are aware that they have a duty to work within the budget envelope provided, and therefore must make every effort to contain these pressures through in-year management action, and to fully deliver on the agreed budget reductions.
- 4.18 Experience from previous years also strongly suggests there will be areas of underspend and betterment across the Council's budget that will mitigate, at least in-year, the pressures felt elsewhere. For instance waste management has a history of underspending over recent years, whilst the budget is kept artificially high pending future waste arrangements.
- 4.19 In setting the 2019/20 budget, as usual, £2M was set aside within the contingency budget against these eventualities, together with a further £1M for inflation. There is no suggestion that these sums be used now to meet in-year pressures, but it remains a useful safety net.
- 4.20 The Council also holds earmarked reserves specifically against the risks associated with Childrens and Adult Social Care pressures, that at the start of 2019/20 stood at £2M and £2.4M respectively. Use of these reserves are by their nature only a one-off mitigation.
- 4.21 It is also likely that once empirical evidence of the performance of business rates is generated, especially in relation to the Essex Pool, that there will be additional income available. For example the Essex Business Rates Pool generated an additional one-off £985,000 for the Council. A similar situation may well also arise in relation to reduced financing costs.
- 4.22 A better picture on these mitigations will be available in time for the first full budget monitoring report due at September Cabinet.

## 5 Housing Revenue Account - £1.510M in-year Surplus

5.1 The table below summarises the provisional revenue outturn for the Housing Revenue Account and the consequential use of balances for 2018/19.

	Original Budget £000	Revised Budget £000	Forecast Period 10 £000	Actual £000
Employees	210	210	210	212
Premises (excluding repairs)	790	765	770	873
Repairs	4,930	5,399	5,399	5,241
Supplies and Services	69	69	69	28
Management Fee	5,579	5,617	5,617	5,617
MATS	1,146	1,146	1,146	1,095
Provision for Bad Debts	394	394	394	75
Depreciation, Impairment etc	6,284	6,284	6,284	6,568
Interest Charges	3,472	3,462	3,462	3,489
Debt Management	43	43	43	26
<b>Total Expenditure</b>	<b>22,917</b>	<b>23,389</b>	<b>23,394</b>	<b>23,224</b>
Fees and Charges	(376)	(376)	(376)	(740)
Dwelling Rents	(24,900)	(25,495)	(25,595)	(25,715)
Other Rents	(1,372)	(1,372)	(1,372)	(1,477)
Contribution from Leaseholders	0	0	0	(287)
Interest	(250)	(240)	(240)	(313)
Recharged to Capital	(566)	(525)	(525)	(382)
<b>Total Income</b>	<b>(27,464)</b>	<b>(28,088)</b>	<b>(28,108)</b>	<b>(28,914)</b>
<b>Net Operating Expenditure</b>	<b>(4,547)</b>	<b>(4,619)</b>	<b>(4,714)</b>	<b>(5,690)</b>
Statutory Mitigations on Capital Financing	0	0	0	168
Revenue Contribution to Capital	1,925	991	1,973	1,390
Appropriation to Earmarked Reserves	2,622	2,622	2,622	2,622
<b>Surplus</b>	<b>0</b>	<b>(1,006)</b>	<b>(119)</b>	<b>(1,510)</b>

5.2 The table above shows that the HRA generated an in-year surplus of £1.510M for 2018/19, principally generated through additional income.

5.3 There are a number of under and overspends on individual budget lines. These include additional rental income coupled with additional fees and charges. In addition there has been less need to top up the provision for bad and doubtful debts. The Revenue Contribution to Capital spend has decreased, in line with the delivery of the capital programme. Finally, rather than build a higher general reserve for the HRA, additional net appropriations to HRA earmarked reserves are proposed.

5.4 Therefore the recommended HRA appropriations are:

<b>HRA Reserve</b>	<b>Planned £000</b>	<b>Additional £000</b>	<b>Total £000</b>
<b>Repairs Contract Pensions Reserve</b>	60	0	60
<b>Capital Investment Reserve</b>	1,043	1,510	2,553
<b>Major Repairs Reserve (Revenue)</b>	1,519	0	1,519
	<b>2,622</b>	<b>1,510</b>	<b>4,132</b>

## **6 Other Options**

- 6.1 This is a factual report setting out the provisional outturn. As such there are no other options. Councillors are of course able to suggest changes to the amounts appropriated to and from earmarked reserves, which would result in a compensating adjustment to the amount taken to or from general reserves.

## **7 Reasons for Recommendations**

- 7.1 As part of the year end processes, Councillors need to approve any appropriations to or from earmarked reserves. This report fulfils that purpose.

## **8 Corporate Implications**

### **8.1 Contribution to Council's Vision & Critical Priorities**

This report outlines the delivery of the Council's objectives and priorities in financial terms

### **8.2 Financial Implications**

As set out in the report

### **8.3 Legal Implications**

None

### **8.4 People Implications**

None

### **8.5 Property Implications**

None

### **8.6 Consultation**

None

### **8.7 Equalities Impact Assessment**

None



8.8 Risk Assessment

None

8.9 Value for Money

As set out in the report

8.10 Community Safety Implications

None

8.11 Environmental Impact

None

**9 Background Papers**

None

**10 Appendices**

None