

CABINET

Date of Meeting	Tuesday, 20 th March 2018
Report Subject	Revenue Budget Monitoring 2017/18 (Month 10)
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

This monthly report provides the current revenue budget monitoring position for 2017/18 for the Council Fund and Housing Revenue Account. The report presents the position, based on actual income and expenditure, as at Month 10 of the financial year. The report projects how the budget would stand at the close of the financial year if all things remained equal.

The projected year end position is:-

Council Fund

- Net in-year expenditure forecasts an operating deficit of £0.375m
- The overall projected in-year position now includes £1.422m due to the change in accounting policy for Minimum Revenue Provision (MRP) charges as agreed by County Council on 1 March. This has the effect of eliminating the operating deficit with net spend projected to be £1.047m less than budget
- Projected Contingency Reserve balance as at 31 March is £8.119m although this reduces to £5.714m when taking account of agreed contributions for the 2018/19 budget

Housing Revenue Account

- Net in-year expenditure forecast to be £0.035m higher than budget
- Projected closing balance as at 31 March 2018 of £1.081m

RECOMMENDATIONS

1	To note the overall report and the projected Council Fund contingency sum as at 31 st March 2018.
2	To approve the transfer of £0.250m from the contingency reserve to an earmarked reserve to use as a contingency against any financial issues arising as a result of implementing different service delivery methods (paragraph 1.23).
3	To note the projected final level of balances on the Housing Revenue Account (HRA).

REPORT DETAILS

1.00	EXPLAINING THE MONTH 10 POSITION																																								
1.01	<p><u>Council Fund Overall Position</u></p> <p>The operating deficit is projected to be £0.375m which is a decrease of £0.533m from the deficit reported last month and is mainly due to additional grant funding received to support winter pressures within Social Services as detailed in 1.07.</p> <p>On 1st March 2018 County Council agreed a change to the Council's policy for accounting for the Minimum Revenue Provision (MRP) charge. This has resulted in a positive impact of £1.422m on the projected outturn which now shows spend as being £1.047m less than the budget.</p>																																								
1.02	<p>Council Fund Latest In-Year Forecast</p> <p>The table below shows the projected position by portfolio.</p> <table><tr><th>TOTAL EXPENDITURE AND INCOME</th><th>Original Budget</th><th>Revised Budget</th><th>Projected Outturn</th><th>In-Year Over / (Under) spend</th></tr><tr><td></td><td>£m</td><td>£m</td><td>£m</td><td>£m</td></tr><tr><td>Social Services</td><td>61.471</td><td>62.454</td><td>62.937</td><td>0.483</td></tr><tr><td>Community & Enterprise</td><td>12.518</td><td>12.540</td><td>11.664</td><td>(0.876)</td></tr><tr><td>Streetscene & Transportation</td><td>27.467</td><td>27.578</td><td>29.778</td><td>2.200</td></tr><tr><td>Planning & Environment</td><td>5.043</td><td>4.931</td><td>5.212</td><td>0.281</td></tr><tr><td>Education & Youth</td><td>10.966</td><td>10.981</td><td>11.169</td><td>0.188</td></tr><tr><td>Schools</td><td>88.862</td><td>88.928</td><td>88.928</td><td>0.000</td></tr></table>	TOTAL EXPENDITURE AND INCOME	Original Budget	Revised Budget	Projected Outturn	In-Year Over / (Under) spend		£m	£m	£m	£m	Social Services	61.471	62.454	62.937	0.483	Community & Enterprise	12.518	12.540	11.664	(0.876)	Streetscene & Transportation	27.467	27.578	29.778	2.200	Planning & Environment	5.043	4.931	5.212	0.281	Education & Youth	10.966	10.981	11.169	0.188	Schools	88.862	88.928	88.928	0.000
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	People & Resources	4.283	4.118	4.537	0.419
	Governance	7.675	7.655	7.785	0.130
	Organisational Change 1	5.801	5.587	5.666	0.079
	Organisational Change 2	2.422	2.288	2.027	(0.261)
	Chief Executive	3.008	2.926	2.795	(0.130)
	Central & Corporate Finance	25.642	25.172	21.611	(3.561)
	Total	255.156	255.156	254.109	(1.047)
1.03	The reasons for the projected variances are summarised within Appendix 1 with key significant portfolio variances explained in paragraphs 1.04 to 1.12 below. As has been the practice in recent years where a variance has been due to a conscious change to policy or practice, the resulting variance is managed corporately with the relevant portfolio not expected to meet any shortfall.				
1.04	<u>Streetscene & Transportation</u> There is a projected overspend of £2.200m within this portfolio. The overspend partly comprises of the materialisation of some of the known significant risks identified when the 2017/18 budget was set by Council and other conscious changes to policy or practice which were detailed in the Month 4 report. The net position on the projected overspend excluding the conscious changes to policy and practice is a now an operating deficit of £0.864m which is an increase of £0.069m from last month.				
1.05	<u>Social Services</u> The projected outturn for Out of County placements in Children's Services is £1.433m over budget due to the number of high cost placements, this is a decrease of £0.029m from the figure reported in month 9 and is the net impact of new and ended placements.				
1.06	To help mitigate the overspend a new project between Social Services and Education & Youth is being undertaken to more proactively respond to identified needs, better manage the demand for placements and to develop the market to be more to be more responsive and affordable. An additional allocation of £0.500m has been included as part of setting the 2018/19 budget to further assist in mitigating the position.				
1.07	This month additional grant funding of £0.428m is reported in the Older People service. This grant funding is to contribute to additional expenditure incurred in Social Services due to winter pressures.				

1.08	<p><u>Education & Youth</u></p> <p>The projected outturn for the education element of Out of County placements is reporting an overspend of £0.348m however the Inclusion and Progression service overall has decreased by £0.024m to £0.298m due to reduced agency costs and increased income.</p>
1.09	<p>There is a continuing risk in the volatility of demand for Out of County Placements and the impact on service costs which cannot be predicted with any certainty. There is always a risk of significant variances occurring such as those reported in paragraphs 1.05 and 1.08 above. This area continues to be closely monitored.</p>
1.10	<p><u>Planning & Environment</u></p> <p>There is a projected in-year Planning Fee Income shortfall of £0.260m due to the impact of the Welsh Government requirements for major developers to enter into pre consultation as detailed in the previous report.</p>
1.11	<p><u>Community & Enterprise</u></p> <p>There is a projected underspend on the Council Tax Reduction Scheme (CTRS) of £0.598m based on current demand which will be kept under review throughout the year together. There is also a favourable variance on the Council Tax Collection fund of £0.415 due to Single Person Discount review work.</p>
1.12	<p><u>Central & Corporate Finance</u></p> <p>There is a positive variance of £3.561m projected within this area which is an increase of £1.656m over month 9 which is due to a one off, in-year, underspend of £0.234m on centrally held inflation and £1.422m due to the change in accounting policy for MRP charges.</p> <p>Major variances within this area include a positive variance on the pension fund contributions, due to a lower than anticipated pressure to fund the in-year increase due to the actuarial review of £0.325m, offset by a shortfall in the corporate income target of £0.407m and lower than anticipated levels of car parking income at County Hall of £0.080m.</p> <p>There is also a positive variance due to the auto enrolment of employees to the pension scheme which became effective in October 2017 (now deferred until January 2018). As employers are legally compelled to enrol eligible staff into a qualifying pension scheme budget provision was set aside to meet potential pension contribution costs. Early analysis indicates that the actual numbers are less than originally estimated, and when combined with the postponement of the auto enrolment date, gives a favourable in year variance of £0.443m.</p>
1.13	<p><u>Significant Movements between Month 9 and Month 10 Budget</u></p> <p>There have been no significant budget movements between portfolios for Month 10.</p>

1.14	<p><u>Achievement of Planned In-Year Efficiencies</u></p> <p>The Council set a challenging target for the level of efficiencies to be achieved in year as part of its approach to annual budget planning. These efficiencies are generated from the three year service portfolio business plans and from corporate financial planning. The 2017/18 budget contains £8.433m of specific efficiencies which are tracked and monitored. In recent years the level of efficiency achievement has averaged at around 85% though the council aspires to raise this to 95% in 2017/18 as reflected in the recent MTFS KPI's.</p> <p>The current assessment of the efficiencies to be achieved in 2017/18 shows that £7.959m (94%) of the efficiencies would be achieved which is 1% less than the agreed target. There is a further risk that any ongoing under-achievement of efficiencies will have a recurring and negative impact on the 2018/19 budget. Further details on the current status on efficiencies can be seen in Appendix 3 with the overall impact in relation to any impact for 2018/19 being reviewed as part of the ongoing work on the MTFS.</p>
1.15	<p>Tracking of In Year Risks and Emerging Issues</p> <p>At the time of setting the Budget for 2017/18 a number of significant risks were identified including the costs of procuring local public and school bus services and the potential reduction of the Single Environment Grant.</p>
1.16	<p>In addition to the known risks referred to above there are also a number of new risks which have emerged in-year and are incorporated into the projected outturn.</p>
1.17	<p>A comprehensive and robust piece of work has been undertaken to assess the risks and mitigations of these variances and any potential impacts on the 2018/19 budget. The outcome of this work is detailed in the 'Stages One and Two of the Council Fund Budget 2018/19 and Planning for the Closing Stage Three' report which was reported to Council on 30 January 2018 and those with an impact into 2018/19 have been included in the 2018/19 budget which was approved by Council on 20 February 2018.</p>
1.18	<p>Winter Maintenance</p> <p>The recent adverse weather continues to put pressure on the winter maintenance budget which only provides for 'average' winter conditions comprising of 70 turnouts and 5 snow affected days. The service has already exceeded this number of turnouts and it is projected that spend will be £1.059m which exceeds the budget of £0.844m by £0.215m. However, this will be offset by the drawdown of part of the winter maintenance reserve (£0.095m) and part drawdown of a grant which is ring-fenced for rock salt (£0.120m). Future options to replenish the Winter Maintenance budget will need to be considered as part of the closedown of the accounts.</p>
1.19	<p>Inflation</p> <p>Included within the 2017/18 budget are provision for pay (£0.915m), targeted price inflation (£0.313m), food (£0.051m), fuel (£0.033m) and Energy (£0.061m).</p>

1.20	A limited amount of funding was set aside in the 2017/18 budget for non-standard inflation (NSI) which has now been allocated to relevant portfolios and any unallocated budget is reported as an in-year underspend included within Central and Corporate Finance.
1.21	<p>Reserves and Balances</p> <p><u>Un-earmarked Reserves</u></p> <p>The 2016/17 outturn reported to Cabinet on 18 July 2017 showed un-earmarked reserves at 31 March 2016 (above the base level of £5.769m) of £5.133m.</p>
1.22	<p>Taking into account the current projected underspend at Month 10 and previously agreed allocations the balance on the Contingency Reserve at 31 March 2018 is projected to be £8.119m as detailed in appendix 4.</p> <p>However, as agreed as part of the 2018/19 budget an amount of £1.945m will be utilised to balance the budget on a temporary basis. In addition County Council on 1 March approved an additional amount of £0.460m for schools, again on a temporary basis. The available Contingency Reserve after taking account of these contributions will therefore be £5.714m.</p> <p>As presented to Council on 1 March it is essential that a sizeable contingency reserve is maintained to safeguard against some of the significant risks that the Council will face in 2018/19 and include the outcome of national pay negotiations, social care demands such as out of county placements and any shortfall in budgeted efficiencies and other unforeseen variances.</p>
1.23	The 2017/18 Budget Report included in its main body a recommendation that, as the Council continues to progress the implementation of different delivery methods for some of its services, it would be considered prudent to set aside some funding as a contingency against any financial issues arising in the early stages and it is recommended that a sum of £0.250m is now ring-fenced for this purpose.
1.24	<p>Housing Revenue Account</p> <p>The 2016/17 Outturn Report to Cabinet on 18 July 2017 showed an un-earmarked closing balance at the end of 2016/17 of £1.116m and a closing balance of earmarked reserves of £0.526m.</p>
1.25	The 2017/18 budget for the HRA is £33.633m which includes a movement of £0.035m from reserves.
1.26	The Month 10 monitoring for the HRA is projecting in year expenditure to be £0.035m lower than budget and a closing un earmarked balance as at 31 March 2018 of £1.081m, which at 3.2% of total expenditure satisfies the prudent approach of ensuring a minimum level of 3%.

2.00	RESOURCE IMPLICATIONS
2.01	The Revenue Budget Monitoring Report reflects the planned use of the financial resources of the Council for the current financial year and details the variations in the first four months and the risks as known.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None required.

4.00	RISK MANAGEMENT
4.01	There are in-year risks and emerging issues which are covered in the main section of the report from paragraph 1.15 to 1.17. Details of these risks were reported in full within the Month 4 report and any with an impact on 2018/19 have been included within the 2018/19 budget which was approved at Council on 20 February 2018.

5.00	APPENDICES
5.01	Appendix 1: Council Fund – Movement in Variances from Month 9 Appendix 2: Council Fund – Budget Variances Appendix 3: Council Fund – Programme of Efficiencies Appendix 4: Council Fund – Movement on Un-earmarked Reserves Appendix 5: Housing Revenue Account Variances

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None required. Contact Officer: Sara Dulson (Finance Manager) Telephone: 01352 702287 E-mail: sara.dulson@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	Budget: a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them. Council Fund: the fund to which all the Council's revenue expenditure is charged. Financial Year: the period of twelve months commencing on 1 April.

Housing Revenue Account: the Housing Revenue Account (HRA) is a local authority account showing current income and expenditure on housing services related to its own housing stock. The account is separate from the Council Fund and trading accounts and is funded primarily from rents and government subsidy.

Projected Outturn: projection of the expenditure to the end of the financial year, made on the basis of actual expenditure incurred to date.

Reserves: these are balances in hand that have accumulated over previous years and are held for defined (earmarked reserves) and general (general reserves) purposes. Councils are required to regularly review the level and purpose of their reserves and to take account of the advice of the Chief Finance Officer.

Revenue: a term used to describe the day-to-day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.

Underspend: when referring to expenditure the actual expenditure incurred is less than budget. Shown as a –ve. When referring to income the actual income achieved exceeds the budget. Shown as a –ve.

Variance: difference between latest budget and actual income or expenditure. Can be to date if reflecting the current or most up to date position or projected, for example projected to the end of the month or financial year.

Virement: the transfer of budget provision from one budget head to another. Virement decisions apply to both revenue and capital expenditure heads, and between expenditure and income, and may include transfers from contingency provisions. Virements may not however be approved between capital and revenue budget heads.

Medium Term Financial Strategy: a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.