

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 17 SEPTEMBER 2013**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **REVENUE BUDGET MONITORING 2013/14 (MONTH 3)**

1.00 PURPOSE OF REPORT

1.01 To provide Members with the most up to date revenue budget monitoring information (Month 3) for the Council Fund and the Housing Revenue Account in 2013/14.

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2.00 EXECUTIVE SUMMARY

2.01 The projected year end position, as estimated at Month 3, is as follows:-

Council Fund

- Net in year expenditure forecast to be £2.065m less than the budget. (An increase of £1.065m on the £1m reported at Month 2)
- Projected contingency reserve balance at 31st March 2014 of £4.706m
- Recurring efficiencies of £1.435m have been identified in Adult Services
- Approval of the recommendations within this report will produce a net positive impact of £0.885m on the Medium Term Financial Plan (MTFP)

This positive variation follows the first detailed budget monitoring, and, specifically, the work which has been undertaken to review service trend

analysis and forecasts in key areas identified in the 2012/13 outturn and the first 2013/14 report in July. The outcome of this work to date is detailed in Section 8

Housing Revenue Account (HRA)

- Net in year expenditure forecast to overspend the budget by £0.043m (Nil variance reported at Month 2)
- Projected HRA balances at 31st March 2014 of £1.391m

The detail relating to the HRA is set out in Section 10.00 of this report

3.00 COUNCIL FUND LATEST IN YEAR FORECAST

3.01 The table below shows a projected positive variation of expenditure against budget of £2.065m :-

TOTAL EXPENDITURE AND INCOME	Original Budget	Revised Budget	In-Year Over / (Under) spend	
			Month 2	Month 3
	£m	£m	£m	£m
<u>DIRECTORATES (Service Groups)</u>				
Services for Adults	45.642	45.567	(1.220)	(2.036)
Services for Children	11.906	11.874	0.250	0.151
Housing Services	1.800	1.833	(0.160)	(0.226)
Development & Resources	1.688	1.648	0.000	(0.038)
TOTAL : COMMUNITY SERVICES	61.036	60.922	(1.130)	(2.149)
Assets and Transportation	6.015	6.042	0.000	(0.012)
Planning	1.708	1.699	0.000	0.046
Public Protection	3.455	3.447	0.000	(0.017)
Regeneration	0.715	0.706	0.000	(0.046)
Streetscene	19.320	19.112	0.000	0.296
Management, Support & Performance	1.088	1.085	0.000	(0.103)
TOTAL : ENVIRONMENT	32.301	32.091	0.000	0.164
Culture & Leisure	6.876	6.876	0.900	0.827
Inclusion Services	14.058	14.058	(0.500)	(0.401)
Primary School Services	43.374	43.374	0.000	(0.025)
Secondary School Services	36.638	36.638	0.000	0.000
Development & Resources	12.118	12.118	0.010	(0.225)
TOTAL : LIFELONG LEARNING	113.064	113.064	0.410	0.176
Chief Executive	2.356	2.348	0.000	0.010
Finance	14.265	14.243	(0.280)	(0.220)
HR & OD	2.427	2.427	0.000	0.005
ICT & Customer Services	4.922	4.871	0.000	(0.035)
Legal	3.145	3.145	0.000	0.012
TOTAL : CORPORATE SERVICES	27.115	27.034	(0.280)	(0.228)
TOTAL DIRECTORATES	233.516	233.111	(1.000)	(2.037)
Central and Corporate Finance	26.236	26.641	0.000	(0.028)
Total	259.752	259.752	(1.000)	(2.065)

- 3.02 The figures as reflected in the above table are all prior to any of the proposed budget adjustments detailed later in the report with subsequent recommendations. Any recommendations approved by Cabinet will be fully reflected within the Month 4 budget monitoring report to Cabinet in October.

Budget Adjustments

- 3.03 The Original Budget column reflects the budget approved by Council on the 1st March 2013. The Revised Budget column reflects in-year virements which have been approved in compliance with Financial Procedure Rules.

Projected position at 31st March 2014

- 3.04 The Council Fund has a positive budget variation with net expenditure forecast to be £2.065m less than the budget. This represents a total net improvement of £1.065m on the projected £1m reported in July as at Month 2. Most of the net improvement (£1.019m) relates to Community Services, of which £0.661m relates to Resource and Regulated Services (Disability Services). A further £0.365m, is due to savings against budget on current care packages within the Mental Health & Substance Misuse service. This area has been considered as part of the overall review of Social Services for Adults as per paragraph 8.02 of this report.
- 3.05 The significant in-year projected variances to date are detailed in Appendices 1 - 5 (Council Fund) and Appendix 7 (HRA), and in addition to giving the reasons for the variances, the actions required to address each variance is provided.

4.00 FINANCIAL CONTROL, BUDGET MANAGEMENT AND REPORTING

- 4.01 A number of actions have been taken to strengthen financial control, budget management and reporting through:
- i. Clear lines of accountability
 - ii. Improved forecasting techniques
 - iii. Early warnings or “alerts” from service managers in changes to service demands and cost bases
 - iv. Improved formal reporting

i) Clear Lines of Accountability

- 4.02 The Council's Financial Procedure Rules (FPR's) are being updated. Financial Procedure Rule 3 (FPR3) in relation to Budget Management has been strengthened in relation to accountability, forecasting and reporting. The rule has been substantially rewritten to emphasise that Heads of Service are accountable for monitoring and controlling income and expenditure against approved budget heads and clarifies the use of budget action plans. The changes also outline the responsibilities of the Corporate Management team and the Council's more modern approach to budget monitoring and associated risks with the removal of ringfenced budgets.
- 4.03 The draft FPR's were agreed at Audit Committee and Constitution Committee in July and will be considered for approval by Council on 25th September.

- 4.04 Both Audit and Constitution committees were of the view that a revised version of the relevant FPR should be shared with the Cabinet and Corporate Resources Overview and Scrutiny Committee, so that Members were fully aware of the accountability and arrangements for budget management. The draft FPR3 is provided as Appendix 8 to this report.
- 4.05 The revised presentation of the Council Fund summary table at paragraph 3.01 above reflects the detail within each Directorate and for Corporate Services based on the areas for which individual Heads of Service have responsibility for financial management of the budget.

ii) Forecasting Techniques

- 4.06 In order to ensure that there is a robust and systematic approach to financial forecasting across all council services, a forecasting model has been developed to underpin in year budget variation, management and forecasting. Its purpose is to:
- Analyse the reasons behind budget variations taking account of the nature of the budget area e.g. demand led, service trends, volatility, impacts on other services and budgets
 - Inform decisions on (i) in year mitigation and / budget virements and (ii) future years mitigations and budget setting within the ranking of Council priorities.

From the experience of the analysis around adults services referred to later in this report, the model will now be refined to ensure it delivers the required outcomes and there is consistent application across all service areas.

iii) Early Warnings

- 4.07 A system has been put into place which requires service managers to provide alerts on a weekly basis of any changes which are being experienced in service demand, unplanned events or changes to funding streams which in turn could have an impact (positive or negative) on the in year or future year budget position. The purpose is to ensure that there is collective corporate understanding of issues and their impact at an early stage; mitigating actions or solutions can be put into place and the "time lag" in reporting is minimised.

iv) Formal Reporting

- 4.08 The presentation of the net Council Fund position in section 3.01 has been revised to show the detail within each Directorate and for Corporate Services based on the areas for which individual service heads have responsibility for financial management of the budget. This gives a greater level of detail and ties in with the accountability in the financial procedures rules.

4.09 Further developments which will be included in the next monthly report are:

- to revise the presentation of the appendices to tie in clearly with the table in 3.01.
- to provide a specific analysis setting out progress with the achievement of the pre-planned efficiencies agreed as part of the budget setting for 2013/14

5.00 INFLATION

5.01 **Pay inflation** of £0.734m was included in the 2013/14 budget in anticipation of a possible pay award in 2013/14, following a freeze on public sector pay in recent years. The Council was advised by the National Joint Council (NJC) for Local Government Services in a letter dated 17th July that agreement had been reached on a pay increase of 1 % effective from 1st April 2013, and the deletion of spinal column point 4 from the national pay scale effective from 1st October 2013. No agreement has been reached as yet however in respect of Teachers pay. The overall implications of the NJC pay award on budgets (which was paid to staff in the August payroll) are currently being assessed and will be reflected within the Month 4 budget monitoring report.

5.02 **Non standard price inflation** - amounts of £0.255m in respect of Energy for Street Lighting, £0.197m in respect of Energy, £0.187m in respect of Fuel and £0.141m in respect of Food costs are included in the budget but held centrally. The budgets which incur the costs affected by non standard inflation are being monitored closely and the funds will be released when a full assessment of the need has been verified. At this stage, the current projected outturn assumes that these amounts will be required in full.

6.00 MONITORING BUDGET ASSUMPTIONS & NEW RISKS

6.01 The budget setting process each year involves the making of assumptions at a measured and acceptable level of risk. Inevitably, in managing a budget of £260m across a large and diverse organisation, variances will occur and new risks will arise. This is normal for any large organisation.

6.02 The improvements in budget management processes described in section 4.00 are aimed at ensuring the early identification and mitigation of such variations to budget. The review of service trend analysis and forecasts in key areas following the 2012/13 outturn position and recommendations for budget re-alignment are described in section 8.00.

6.03 Where there are actual or projected variations to budgets, the detail is contained within the appendices to this report. Some areas of the budget are particularly demand led e.g. care packages or influenced by external factors e.g. welfare reform, the economy. These continue to be monitored very carefully across all services.

6.04 There are some areas which are being specifically monitored which potentially could have impacts on the budget beyond the current assumptions:

- Outcome Agreement Grant - full allocation of grant applicable to 2012/13 is subject to future agreement by Welsh Government (WG). However, a recent meeting with WG officers concluded that the Council has met the requirements for full payment of the grant and the WG Minister will be advised of this.
- Former chemical plant - Sandycroft (Euticals Ltd.) - along with its strategic partners, the Council has intervened in relation to this site and is in discussion with Welsh Government about solutions, roles and responsibilities
- Social Services for Children - the trend of referrals currently being experienced is increasing
- Waste Services - risks of impacts of changes in market demand on future recycling income (plastics), and further reductions of specific Welsh Government grant for Sustainable Waste management (SWMG)

7.00 ACHIEVEMENT OF EFFICIENCIES

7.01 The 2013/14 budget includes efficiencies of £5.331m which were agreed by Council on 1st March. Achieving our efficiency targets is a priority within the 2013/14 Improvement Plan with a specific target of meeting 85% or more of our pre-agreed efficiency targets. Careful monitoring and regular reporting will be a key driver to ensuring that we keep on track with our plans and are able to take mitigating action if any of the efficiencies are delayed or become unachievable.

7.02 From next month, this report will provide a specific analysis setting out progress with the achievement of the efficiencies. An early evaluation of the likelihood of the achievement of the previously agreed efficiencies has been undertaken and has identified one which is not likely to be achieved in full this financial year. This relates to the Review of the Supported Living Service within Adult Services which has an identified efficiency of £0.350m in 2013/14. At this stage it is anticipated that £0.058m will be achieved in 2013/14 with the remainder likely to be achieved in full, but in future financial years. This is due partly to the anticipated delay in implementation of a revised staffing structure for which a part year effect has been reflected, and a delay in the review of care packages for each individual within properties. The in year variance is reflected in the Adult Services projection.

7.03 At this early stage, the projected in-year achievement of pre planned efficiencies is 95%, which is ahead of target.

8.00 BUDGET RE-ALIGNMENT AND POTENTIAL IMPACTS FOR THE MEDIUM TERM FINANCIAL PLAN

8.01 As highlighted in paragraph 2.01, detailed work has been undertaken to review service trend analysis and forecasts in key areas identified in the 2012/13 final outturn report and first 2013/14 budget monitoring report which were major contributors to the net underspend reported on both occasions. The outcomes of this work relating to Social Services for Adults and professional support in Children's Services are detailed below along with recommendations for budget re-alignment and identification of impacts for the Medium Term Financial Plan. Further work is still being progressed in respect of Out of County Placements and Family Placement which will be reported on in the Month 4 budget monitoring report.

Social Services for Adults

8.02 Following detailed consideration of the service trends analyses and forecasts within Social Services for Adults, in-year savings of £1.670m have been identified. These savings occur within Intake & Re-ablement, Locality teams, Physical Disability & Sensory Impairment (PDSI), Disability Services, Learning Disability transition and Mental Health. It is recommended that the in-year budgets are reduced by the appropriate amounts making up the £1.670m.

8.03 The recurring savings arising from this review activity amount to £1.435m and can now be included as a future budget efficiency for reflection in the Council's MTFP. However, £0.300m of this sum which relates to Disability Services (Transition) has already been included within the MTFP, and so there is a net additional benefit to the MTFP of £1.135m.

Children's Services - Professional Support

8.04 As a result of the overall review activity a budget pressure of £0.250m has been identified within the Professional Support budget - Children's Services. This has come about as a result of a marked increase in the demand for statutory child care support in Flintshire which has been mirrored across Wales and the United Kingdom. This increase could be associated with the impact of Welfare Reform and due to the awareness of high profile cases, such as Baby Peter and more recently the Saville investigation. It is recommended that additional base budget of £0.250m be allocated to this service in 2013/14.

Children's Services - Out of County Placements / Family Placement

8.05 The review activity has also identified potential further savings within the out of county placements budgets within Children's Services and the Inclusion service to those included in the 2013/14 budget. There is also a closely related budget pressure within the Children's Services Family Placements budget. This pressure has been influenced by the reductions in expenditure achieved within the out of county placements budgets for Children's Services and Inclusion within Lifelong Learning as more children are placed with families in County. Detailed discussions are taking place between the departments

concerned with a view to recommending budget virement and potential efficiencies which will bring budgets into line with changes in service delivery. This will be updated in the Month 4 budget monitoring report. It is possible that there may be a further recurring efficiency for reflection in the MTFP.

9.00 UNEARMARKED RESERVES

9.01 The 2012/13 final outturn reported to Cabinet on 16th July showed unearmarked reserves at 31st March 2013 (above the base level of £5.564m) of £3.409m, after taking into account a commitment in 2013/14 for use of £0.297m to meet one-off / time limited costs. In July, Cabinet allocated £0.250m to the Winter Maintenance reserve, bringing the level in the reserve to £3.159m.

9.02 **Severe Weather in March 2013** - The late March 2013 severe weather event led to the Council submitting a claim to Welsh Government (WG) under their Emergency Financial Assistance Scheme (EFAS) for financial support for costs incurred during the two phases of the event being the initial period, and also for the recovery phase. The Council was advised by letter dated 9th August 2013 that the Minister for Local Government & Government Business had decided, on this occasion, not to exercise discretion to fund the Council's claim for support.

9.03 A delegated powers authority was approved in May for recovery cost expenditure to be committed in 2013/14 up to the sum of £0.621m where necessary. This was an estimated sum, and to date, the immediate recovery work has been completed with a programme of work underway to complete the remainder of the work with the total estimated cost of work on Council Fund services amounting to £0.518m. An allocation of £0.518m will therefore be made from the contingency reserve to the appropriate Council Fund service accounts to finance these costs. As £0.100m of the original estimate related to Housing Revenue Account (HRA) services, these costs will be charged to the HRA, and funded from the HRA balances.

9.04 After taking account of the cost of the severe weather and bringing in the impact of the projected in year budget position the current projected level of the contingency reserve at the end of March 2014 is an amount of £4.706m. Details are shown in Appendix 6.

10.00 HOUSING REVENUE ACCOUNT

10.01 On 19th February 2013, the Council approved a Housing Revenue Account (HRA) budget for 2013/14 of £28.259m. The budget provided for a closing balance of £0.903m, which at 3.2 % of total expenditure satisfies the prudent approach of ensuring a minimum level of 3 %.

10.02 The 2012/13 final outturn reported to Cabinet on 16th July 2013 showed a closing balance at the end of 2012/13 of £1.931m (subject to audit) which was £0.861m more than when the 2013/14 budget was set. This had the effect of increasing the closing balance for 2012/13 by the same amount.

- 10.03 There is an overall projected overspend of £0.043m and a projected closing balance at Month 3 of £1.391m, which at 4.9 % of total expenditure satisfies the prudent approach of ensuring a minimum level of 3 %. The projected outturn reflects provision for the following items which are to be funded by allocations from the HRA balances as indicated in the final outturn report to Cabinet on 16th July 2013.
- Provision of £0.150m for possible exit costs (redundancy / pension fund strain payments) arising from completion of service reviews
 - Provision of £0.050m for expenditure on security measures for the Flint maisonettes
 - Provision of £0.130m for repair and maintenance expenditure on void properties where works were completed in 2012/13
- 10.04 Appendix 6 details the reasons for significant variances occurring to date and the actions planned to deal with them.
- 10.05 The main potential risk to the HRA projected outturn is the possible impact of the Single Status agreement - any impact will need to be fully funded within the HRA as it is a ringfenced account. An estimated amount of £0.250m was noted within the final outturn report to Cabinet on 16th July 2013 , and if this amount were to be required in full there would be a corresponding reduction of the projected closing balance to £1.141m.

11.00 RECOMMENDATIONS

11.01 Members are recommended to :-

- a) Note the overall report.
- b) Note the projected Council Fund contingency sum as at 31st March 2014 (paragraph 9.04).
- c) Note the projected final level of balances on the Housing Revenue Account (paragraph 10.03).
- d) Approve the in-year base budget reductions as detailed in paragraph 8.02
- e) Approve the allocation of base budget of £0.250m to Professional Support - Children's Services as detailed in paragraph 8.04

12.00 FINANCIAL IMPLICATIONS

12.01 The financial implications are as set out in Sections 3.00 - 9.00 of the report.

13.00 ANTI POVERTY IMPACT

13.01 None

14.00 ENVIRONMENTAL IMPACT

14.01 None

15.00 EQUALITIES IMPACT

15.01 None

16.00 PERSONNEL IMPLICATIONS

16.01 None

17.00 CONSULTATION REQUIRED

17.01 None

18.00 CONSULTATION UNDERTAKEN

18.01 None

19.00 APPENDICES

19.01 Council Fund Variances - Appendices 1 - 5
Council Fund - Movements on unearmarked reserves - Appendix 6
Housing Revenue Account Variances - Appendix 7
Financial Procedure Rule 3 (draft revised version) - Appendix 8

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

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