

CABINET MEETING

Date of Meeting	Tuesday 20 September 2016
Report Subject	Revenue Budget Monitoring 2016/17 (Month 4)
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 latest revenue budget monitoring position for 2016/17 for the Council Fund and Housing Revenue Account. This is the first monitoring report and presents the position, based on actual income and expenditure, as at Month 4 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, without mitigation to reduce cost pressures and improve the yield on efficiency planning, is:-

Council Fund

- Net in year expenditure forecast to be £2.081M higher than budget
- Projected contingency reserve balance of £2.107M

The underlying forecast overspend will be reduced to £1.641M with the successful negotiation of an additional Welsh Government transport grant of £0.440M. Of the remaining £1.641M, £0.861M (52%) comes from conscious decisions to change proposals for household recycling centres, community assets transfers, town centre and County Hall car parking charging, and workforce essential car use allowances. This leaves a true unpredicted working deficit of £0.780M. The recurring impacts of the forecast position for 2017/18 are explained in the report.

Housing Revenue Account

- Net in year expenditure forecast to be £0.013M lower than budget
- Projected closing balance as at 31 March 2016 of £1.111M

RECOMMENDATIONS

1	Cabinet is recommended to note the report.
2	To approve an allocation of £0.861M from the contingency reserve to meet the financial impact of the changed proposals for household recycling centres, community asset transfers, town centre and county hall car parking charging, and workforce essential car user allowances (paras 1.03 – 1.08).

REPORT DETAILS

1.00	Explaining the Month 4 Position
1.01	<u>Council Fund Overall Position</u> The projected year end position, without mitigation to reduce cost pressures and improve the yield on efficiency planning, is as follows:- <ul style="list-style-type: none">• Net in year expenditure forecast to be £2.081M higher than budget• Projected contingency reserve balance of £2.107M
1.02	The underlying deficit balance will be reduced to £1.641M with the successful negotiation of an additional Welsh Government transport grant of £0.440M. The Council, along with neighbouring councils, was given notice in July that one of its contracted transport operators, GHA Coaches, was going into immediate liquidation. Urgent action was required to secure the school and public transport subsidised routes operated by GHA Coaches. The procurement of full replacement service providers is projected to incur an additional cost of £0.440M for the remainder of 2016/17. The councils affected are in negotiation with Welsh Government for an additional in-year transport grant to fund these costs and full cost recovery is expected. Decisions can then be made with Welsh Government on transport routing, procurement and costs for 2017/18 onwards. A recurring negative impact on the 2017/18 financial year can be avoided through this work.
1.03	Of the remaining deficit balance of £1.641M, £0.861M (52%) comes from conscious decisions to change proposals for household recycling centres, community assets transfers, town centre and County Hall car parking charging, and workforce essential car use allowances.
1.04	Following extensive discussion between the Cabinet and the Environment Overview and Scrutiny Committee a solution to a sustainable number of household recycling centres has been agreed. This involves withdrawing a planned efficiency target of £0.250M in the current financial year. In the longer-term this efficiency will be replaced by the reduced cost in transporting waste to landfill and incurring Landfill Tax. The withdrawn efficiency for 2016/17 will be charged to the Contingency Reserve.

1.05	The two principal Community Asset Transfers of Connah's Quay Swimming Pool (completed) and Holywell Leisure Centre (advanced) both had ambitious timescales set from the outset. Both projects required a minor extension of time (up to three months) for safe transition from Council ownership to community ownership. A £0.2M in-year reduction in the efficiency set is forecast. There will be no recurring impact as the efficiency will be achieved in full from 2017/18.
1.06	An approved delay in the introduction of car parking charges in Flint, due to the limited availability of town centre public car parking during the main phases of the Flint Regeneration Scheme, will cause a loss of £0.1M car parking income in-year. Once the Scheme is advanced and car parking provision can be returned to a state of normality the income level will be recovered and the efficiency returned. A date for local charging being introduced in Flint cannot yet be set. The withdrawal of the car parking charging proposal for workforce use of the County Hall complex will cause a further loss of £0.1M car parking income. The car parking permit administrative charge for employees of £12.00 per person, the reserved space income for a small number of dedicated users, and the income from fee paying public users will still generate a small income. The income loss from County Hall will, from 2017/18, be more than offset by the efficiencies set out in 1.07 below.
1.07	An efficiency target of £0.500M was set for a significant reduction in the costs of workforce essential car user allowances. A detailed and sensitive set of negotiations with the Trade Unions was required. The national essential car user scheme, although since withdrawn by many local authority employers, is included in the local Part 3 Agreement under Single Status. Whilst time in implementing the changes sought has been lost an amicable agreement to introduce a three part change to the total number of car allowances granted, the lump sum allowance payable, and the mileage rate for essential user travel, to be introduced in stages from 1 October, will still secure an in-year efficiency of £0.289M (shortfall of £0.211M in 2016/17). However, there will be a positive recurring impact as the full year efficiency from 2017/18 onwards will be in the region of £0.751M and will exceed target.
1.08	The Contingency Reserve is designed to act as a flexible reserve to absorb unexpected in-year cost pressures whether they occur by design or by default. The use of the Reserve is recommended for the 2016/17 financial impact as detailed in paragraphs 1.04 – 1.07 and is consistent with its purpose.
1.09	Having accounted for all of the above a true unpredicted working deficit balance of £0.780M will remain.
1.10	<p><u>Council Fund Latest in Year Forecast</u></p> <p>The table below shows the projected position by portfolio.</p>

	TOTAL EXPENDITURE AND INCOME	Original Budget	Revised Budget	Projected Outturn	In-Year Over / (Under) spend
		£M	£M	£M	£M
	Social Services	58.534	60.191	60.127	(0.064)
	Community & Enterprise	12.035	12.336	11.985	(0.351)
	Streetscene & Transportation	27.011	28.458	29.798	1.340
	Planning & Environment	4.978	5.469	5.529	0.060
	Education & Youth	11.225	11.459	11.520	0.061
	Schools	86.162	87.372	87.372	0.000
	People & Resources	4.319	4.570	4.600	0.031
	Governance	8.159	8.352	8.409	0.057
	Organisational Change 1	5.560	5.972	6.164	0.193
	Organisational Change 2	2.244	2.575	2.472	(0.103)
	Chief Executive	3.204	3.191	3.123	(0.068)
	Central & Corporate Finance	28.552	22.039	22.964	0.925
	Total	251.984	251.984	254.065	2.081
1.11	The reasons for the projected variances are summarised within Appendix 1 with key variances explained in paragraphs 1.01 to 1.07 and in the following paragraphs.				
1.12	<p>Significant Budget Movements between Original and Revised Budget</p> <p>Changes from the Original Budget to the Revised Budget are mostly due to the distribution workforce increment, pay award, superannuation increases and employer national insurance increases, which were centrally held within the Central & Corporate Finance budget when the 2016/17 budget was set.</p>				
1.13	<p>Streetscene and Transportation</p> <p>There is a significant variance within the portfolio of £1.340M with the major changes explained above. Full details of all variances are given in Appendix 1.</p>				
1.14	<p>Central & Corporate Finance</p> <p>There is a significant variance within the portfolio of Central and Corporate Finance of £0.925M. Full details of all variances are given in Appendix 1.</p>				

1.15	<p>Programme of Efficiencies</p> <p>The 2016/17 budget contains £11.282M of specific efficiencies which are being tracked and monitored.</p>
1.16	<p>Appendix 2 provides detail on the latest position where there is a variation to the level of efficiency achievable compared to the budget.</p>
1.17	<p>This shows that it is currently projected that £9.703M (86%) will be achieved resulting in a net underachievement of £1.579M. The position will continue to be monitored and reported in future monitoring reports.</p>
1.18	<p>Inflation</p> <p>Included within the 2016/17 budget are provision for pay (£0.936M), targeted price inflation (£0.573M) and income (£0.185M).</p>
1.19	<p>No provision has been made for non-standard inflation (NSI) in 2016/17. Areas that may be subject to NSI increases will be monitored throughout the year and any emerging pressures will be considered in future reports.</p>
	<p>Reserves and Balances</p>
1.20	<p>Un-earmarked Reserves</p> <p>The 2015/16 outturn reported to Cabinet on 19 July 2016 showed un-earmarked reserves at 31 March 2016 (above the base level of £5.769M) of £4.375M.</p>
1.21	<p>Taking into account the current overspend at Month 4 and previously agreed allocations the balance on the contingency reserve at 31 March 2017 is projected to be £2.107M.</p>
1.22	<p>This takes into account the allocation of £0.111M and £0.076M approved at month 2 for the respective costs of historic child abuse claims and Summer Play Schemes.</p>
1.23	<p>Earmarked Reserves</p> <p>The Council adopted a reserves protocol in September 2015 which set out the principles around how the Council determines, manages and reviews its level of reserves. Within the protocol is reference to regular reporting of the latest position to Cabinet and Corporate Resources Overview and Scrutiny Committee.</p>
1.24	<p>A summary of earmarked reserves as at 1 April 2016 and an estimate of projected balances as at the end of the financial year will be included in the month 5 report.</p>
1.25	<p><u>Housing Revenue Account</u></p> <p>The 2015/16 Outturn Report to Cabinet on 19 July 2016 showed an un-earmarked closing balance at the end of 2015/16 of £1.178m (subject to</p>

	audit).
1.26	The 2016/17 budget for the HRA is £31.979m which includes a movement of £0.080m from reserves.
1.27	The Month 4 monitoring for the HRA is projecting in year expenditure to be £0.013m lower than budget and a closing balance as at 31 March 2017 of £1.111m, which at 3.5% 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	<p>Achievement of Planned In-Year Efficiencies</p> <p>The Council sets a challenging level of specified 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. In recent years the level of efficiency achievement has averaged at around 85%. The first assessment of the efficiency profile for 2016/17 shows that 86% of the efficiencies pre-set in the annual budget will be achieved. Whilst this is on average it does mean that there will be a shortfall to be met through mitigation of £1.579M. There is a risk that the shortfall cannot be mitigated other than drawing on temporary funding from the Contingency Reserve. There is a further risk that any ongoing underachievement of efficiencies will have a recurring and negative impact on the 2017/18 budget as an efficiency target deficit would in effect be carried forward. Risk status: unstable/amber risk.</p>
4.02	<p>In-Year Reductions in Government Specific Grants</p> <p>This has been a trend in recent years whereby specific grants awarded by Government, and its grant awarding bodies, can be reduced in year and with limited notice. In such cases the Council faces the difficult choice of either reducing the services which the grants fund or absorbing the grant deficit as an in-year cost pressure. Whilst grants are tracked and representations are made to Government when any risks of grant reductions become known, this remains an open risk. Risk status: unstable/amber risk.</p>

4.03	<p>Cost Pressures in Residential and Domiciliary Care</p> <p>The Council is faced with having to meet high levels of annual cost inflation for commissioned places and homecare packages in the residential and domiciliary provider markets due, in the main, to the introduction of the Living Wage and its impact on the payroll costs of providers. In setting its annual budget the Council referred to the need to set aside reserves of £0.646M to meet the additional inflationary costs for 2016/17 as a temporary funding solution only if additional funding was not available to fund these increases. The Council has been successful in securing £0.5M from the Intermediate Care Fund (ICF) to part fund these costs. This will mean that only an amount up to £0.146M will have to be found from reserves. The projected budget figures for the Social Services portfolio for 2016/17 reflect this net cost. There is no confirmation at this stage that the use of the ICF in this way will be continued for 2017/18 and the inflationary costs within the care sector will continue to increase as profiled in previous reports. Therefore there are risks of significant cumulative cost pressures in this sector. Risk status: unstable/red risk.</p>
4.04	<p>Municipal Mutual Insurance (MMI)</p> <p>MMI was the predominant insurer of public sector bodies prior to 1992 before going into liquidation. Flintshire was required to pay a levy of 15% of its share of the claims paid out previously and for any future claims. Other local authorities likewise have to make a contribution. When MMI's administrator published their 2015 accounts it showed that due to an increase in the number of claims overall there would need to be an increase the levy to meet liabilities. A recommendation was approved in 2015/16 to meet a significant liability which reflects a 20% increase in the levy. Whilst financial provision has been set aside for the risk assessed at that time the risk of a further increase in the levy remains open as legal work on claims is protracted with uncertain outcomes. Risk status: stable/green risk.</p>
4.05	<p>Historic Child Abuse Settlements</p> <p>A number of historic child abuse cases, which predate the existence of Flintshire County Council, have been settled this financial year. There are still a number of outstanding cases to be settled and it is difficult to estimate the full financial impact of these. The financial provision set aside may not prove to be sufficient to meet the cost liabilities of all cases when closed. Risk status: unstable/amber risk.</p>
4.06	<p>Landfill Site Energy Income</p> <p>The Council derives an income from the sale of electricity produced from gas extraction at the Standard and Brookhill landfill sites. Energy production and therefore income levels have been reducing over time. There is potential for further loss of gas engine income through diminishing levels of gas. The service is being out sourced to remove the risk longer-term. Risk status: stable/amber risk.</p>
4.07	<p>Orphaned Industrial Site at Sandycroft</p> <p>The contract for the removal of all chemical deposits, site cleansing and</p>

	<p>site close-down will come to a conclusion in the late autumn/early winter. The contract has had to be flexible to meet the unforeseen given the unique circumstances of this case (the former Euticals company). There may be an additional cost pressure as the Council is having to maintain the site for a longer period than first expected to see out the site closure programme. The monthly cost of maintaining and securing the site is £25-30,000. At the close of the programme the final cost can be determined. It might be possible to set any overspend against the reserve provision set aside for the contract (for which a partial Welsh Government grant of £0.700M was secured) and/or from any proceeds for the site disposal which will follow. Risk status: unstable/amber risk.</p>
4.08	<p>Infrastructure for improvement works at Bagillt</p> <p>The recent flooding events in the Bagillt area resulted in a number of properties being flooded. Drainage works have been carried out to improve the existing outlet from Reeces Terrace, and further investigatory works are being undertaken which could result in additional expenditure if major infrastructure improvement is required to prevent further flooding. Risk status: unstable/amber risk.</p>

5.00	APPENDICES
5.01	<p>Appendix 1: Council Fund – Budget Variances Appendix 2: Council Fund – Programme of Efficiencies Appendix 3: Council Fund – Movement on Un-earmarked Reserves Appendix 4: Housing Revenue Account Variances</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None required</p> <p>Contact Officer: Sara Dulson Telephone: 01352 702287 E-mail: sara.dulson@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>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.</p>
7.02	<p>Council Fund: the fund to which all the Council's revenue expenditure is charged.</p>
7.03	<p>Financial Year: the period of twelve months commencing on 1 April.</p>
7.04	<p>Housing Revenue Account: the Housing Revenue Account (HRA) is a</p>

	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.
7.05	Projected Outturn: projection of the expenditure to the end of the financial year, made on the basis of actual expenditure incurred to date.
7.06	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.
7.07	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.
7.08	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.
7.09	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.
7.10	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.
7.11	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.