

CABINET

Date of Meeting	Tuesday, 18 October 2016
Report Subject	Revenue Budget Monitoring 2016/17 (month 5)
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 presents the position, based on actual income and expenditure, as at Month 5 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 £1.421m higher than budget
- Projected contingency reserve balance of £1.884m

The underlying forecast overspend will be reduced to £0.981m with the successful negotiation of an additional Welsh Government transport grant of £0.440m. The position in month 5 is an additional deficit from month 4.

Housing Revenue Account

- Net in year expenditure forecast to be £0.003m lower than budget
- Projected closing balance as at 31 March 2017 of £1.1098m

RECOMMENDATIONS

1	Cabinet is recommended to note the overall report and the projected Council Fund contingency sum as at 31 st March 2017.
2	Note the projected final level of balances on the Housing Revenue Account.
3	To agree a contribution from the contingency reserve of £0.100m to meet the resource requirements for specialist social work for child protection (see paragraph 1.17).

REPORT DETAILS

1.00	EXPLAINING THE MONTH 5 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 £1.421m higher than budget• Projected contingency reserve balance of £1.884m
1.02	The underlying deficit balance will be reduced to £0.981m 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. Negotiations are advanced and the Council expects to recover at least a proportion of the additional cost. 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	<u>Council Fund Latest in Year Forecast</u> The table shows the projected position by portfolio.

	TOTAL EXPENDITURE AND INCOME	Original Budget	Revised Budget	Projected Outturn	In-Year Over / (Under) spend
		£m	£m	£m	£m
	Social Services	58.534	60.346	60.696	0.350
	Community & Enterprise	12.035	12.326	11.962	(0.365)
	Streetscene & Transportation	27.011	28.444	29.455	1.011
	Planning & Environment	4.978	5.463	5.495	0.032
	Education & Youth	11.225	11.404	11.488	0.083
	Schools	86.162	87.372	87.372	0.000
	People & Resources	4.319	4.633	4.649	0.016
	Governance	8.159	8.427	8.463	0.036
	Organisational Change 1	5.560	5.972	5.979	0.007
	Organisational Change 2	2.244	2.575	2.399	(0.176)
	Chief Executive	3.204	3.189	3.133	(0.057)
	Central & Corporate Finance	28.552	21.831	22.315	0.484
	Total	251.984	251.984	253.405	1.421
1.04	The reasons for the projected variances are summarised within Appendix 2 with key significant portfolio variances explained in paragraph 1.07.				
1.05	The month 4 report approved use of £0.861m from the contingency reserve. This use of the contingency fund is reflected in the month 5 projected outturn. Had this use of the contingency reserve not been approved the month 5 projected outturn would be £2.282m - an increase of £0.201m from month 4. Key movements between periods are summarised in Appendix 1.				
1.06	<p>Significant Budget Movements between Original and Revised Budget</p> <p>A significant budget movement of £0.190m has occurred from Central & Corporate Finance to Social Services due to further distribution of superannuation increases and employer national insurance increases. These were centrally held within the Central & Corporate Finance budget when the 2016/17 budget was set.</p>				
1.07	<p>Streetscene and Transportation</p> <p>There is a significant variance within the portfolio of £1.011m. This will be reduced to £0.571m with the successful negotiation of an additional Welsh</p>				

	Government transport grant of £0.440m as described in 1.02. Full details of all other variances are given in Appendix 1.																
1.08	<p>Programme of Efficiencies</p> <p>The 2016/17 budget contains £11.282m of specific efficiencies which are being tracked and monitored. An amount of £0.761m was approved from the contingency reserve in the month 4 report to meet the impact of conscious decisions to change proposals for household recycling centres, community asset transfers, town centre car parking charging and workforce essential car user allowances resulting in a revised efficiency target of £10.521m.</p>																
1.09	<p>The table below shows how the use of the contingency reserve has altered the efficiency target for 2016/17.</p> <table border="1" data-bbox="379 712 1294 1032"> <thead> <tr> <th></th> <th>£(m)</th> </tr> </thead> <tbody> <tr> <td>2016/17 Budget Efficiencies</td> <td>11.282</td> </tr> <tr> <td>Met from Contingency Reserve;</td> <td></td> </tr> <tr> <td>Household Recycling Centres</td> <td>(0.250)</td> </tr> <tr> <td>Community Asset Transfers</td> <td>(0.200)</td> </tr> <tr> <td>Town Centre Car Parking Charging</td> <td>(0.100)</td> </tr> <tr> <td>Workforce Essential Car User Allowance</td> <td>(0.211)</td> </tr> <tr> <td>Revised 2016/17 Efficiency Target</td> <td>10.521</td> </tr> </tbody> </table>		£(m)	2016/17 Budget Efficiencies	11.282	Met from Contingency Reserve;		Household Recycling Centres	(0.250)	Community Asset Transfers	(0.200)	Town Centre Car Parking Charging	(0.100)	Workforce Essential Car User Allowance	(0.211)	Revised 2016/17 Efficiency Target	10.521
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1.10	Appendix 3 provides detail on the latest position where there is a variation to the level of efficiency achievable compared to the budget.																
1.11	This shows that it is currently projected that £9.612m (91%) will be achieved resulting in a net underachievement of £0.909m. The position will continue to be monitored and reported in future monitoring reports.																
1.12	<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>																
1.13	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.																
	Reserves and Balances																
1.14	<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>																
1.15	Taking into account the current projected overspend at Month 5 and previously agreed allocations the balance on the contingency reserve at 31 March 2017 is projected to be £1.884m as detailed in appendix 4.																

1.16	This takes into account the allocation of £0.861m approved at month 4 to meet the financial impact of the changed proposals for household recycling centres, community asset transfers, town centre & county hall car parking charging and workforce essential car user allowances. This also takes into account an additional allocation of £0.022m for costs of historic child abuse claims which will be met from the contingency reserve as previously agreed.																																																																					
1.17	There is an increased need for specialist social work capacity for child protection support working in partnership with statutory agencies. Currently there are projected costs of £0.100m being shown within the Children's Service budget and it is recommended that this be met from the contingency reserve.																																																																					
1.18	<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>																																																																					
1.19	The table below gives a summary of earmarked reserves as at 1 April 2016 and provides an estimate of projected balances as at the end of the current financial year.																																																																					
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1.21	<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 audit).</p>
1.22	<p>The 2016/17 budget for the HRA is £31.979m which includes a movement of £0.080m from reserves.</p>
1.23	<p>The Month 5 monitoring for the HRA is projecting in year expenditure to be £0.003m lower than budget and a closing balance as at 31 March 2017 of £1.098m, which at 3.4% of total expenditure satisfies the prudent approach of ensuring a minimum level of 3%.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>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.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None required.</p>

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 current assessment of the efficiency profile for 2016/17 shows that 91% of the efficiencies would be achieved. 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</p>

	<p>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-</p>

	term. Risk status: stable/amber risk.
4.07	<p>Orphaned Industrial Site at Sandycroft</p> <p>The contract for the removal of all chemical deposits, site cleansing and 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>
4.09	<p>Procurement of Transport Services</p> <p>As explained in 1.02 above there is an in-year budget risk of an additional procurement cost of £0.440m for local transport services. Negotiations are ongoing with Welsh Government over additional grant support. Risk status: unstable/amber risk.</p>

5.00	APPENDICES
5.01	<p>Appendix 1: Council Fund – Movement in Variances from Month 4 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</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 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.