



## CABINET

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| <b>Date of Meeting</b> | Tuesday, 17 July 2018                                |
| <b>Report Subject</b>  | Revenue Budget Monitoring 2018/19 (Interim)          |
| <b>Cabinet Member</b>  | Leader of the Council and Cabinet Member for Finance |
| <b>Report Author</b>   | Corporate Finance Manager                            |
| <b>Type of Report</b>  | Operational  |

### EXECUTIVE SUMMARY

This interim report is the first revenue budget monitoring report of 2018/19. The report provides information on the progress of achieving planned efficiencies against the targets set and reports by exception on significant variances which may impact on the financial position in 2018/19.

This initial revenue monitoring update does not provide the level of detail which will follow in later Revenue Budget Monitoring Reports, the first being the Month 4 which will be reported to Cabinet on 25 September 2018 but does highlight the high level risks affecting financial projections that will need to be closely monitored throughout the year.

### RECOMMENDATIONS

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| 1 | Cabinet is recommended to note the report.  |
| 2 | To approve a contribution from the Contingency Reserve to offset the funding reduction for the Minority Ethnic Achievement Grant (MEAG) (paragraph 1.21). |

**REPORT DETAILS**

| <b>1.00</b> | <b>REVENUE BUDGET MONITORING 2018/19 (INTERIM REPORT)</b>   |
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| 1.01        | <p>As in previous years, during the early part the 2018/19 financial year Corporate Finance resources have been dedicated to the closure of the accounts for 2017/18 to ensure that the statutory deadline for completion of the draft statement of accounts by the end of June is achieved. Full detailed budget monitoring will commence following this deadline and pending the resumption of full monthly reporting an interim report is presented at the end of month 2, reporting by exception only. For information the draft Statement of Accounts are to be presented to the Audit Committee on 11 July 2018, and the 2017/18 revenue final outturn report is included on the agenda for this Cabinet Meeting.</p> |
| 1.02        | <p>Work has already been undertaken to review the progress and risks within this report to identify any emerging pressures or unachieved efficiencies which may impact on the latest MTFs forecast for 2019/20 and this will continue throughout the year.</p>  |
| 1.03        | <p>Although at an early stage in the financial year, the initial net impact of the emerging risks and variances as detailed in the report is that expenditure is projected to be £1.619m lower than budget. It should be noted that this figure only includes significant variances as specified, and does not reflect a complete projected outturn position. The first detailed monitoring of all risks and variances will be reported to Cabinet on 25 September 2018.</p>  |
| 1.04        | <p>The 2018/19 budget includes £5.511m of efficiencies from Portfolio Business Planning and Corporate Financing.</p> <p>Achievement of these efficiencies will be measured each month and reported within the monthly revenue budget monitoring report and a target of 95% has been set.</p> <p>At this stage it is projected that the full amount of efficiencies will be achieved although a more detailed analysis will be included within the Month 4 Revenue Budget Monitoring Report and subsequent reports. It should be noted this position could change throughout the year.</p>   |
| 1.05        | <p>Budget planning, monitoring and management is tightly controlled by accountable Service Managers and Finance Managers from the outset. Cabinet members are also fully involved in their respective portfolio areas.</p>  |

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| 1.06 | <p>Members were made aware when setting the budget that there were a number of risks that would need to be kept under close review and an update on these are included together with other emerging risks that have been identified within Portfolios. There are also some positive variations that mitigate some of these risks as detailed within the report.</p>   |
| 1.07 | <p>Areas that are considered as a high risk of financial volatility will be reviewed as part of the monthly monitoring process and the implications considered as part of the Councils forecasting over the medium term. Though considered in detail throughout the report the areas of particular concern include:</p> <ul style="list-style-type: none"> <li>• Out of County Placements</li> <li>• Social Services for Children</li> <li>• Residential Care for Adults</li> <li>• Recycling income</li> <li>• Potential Grant Reductions</li> <li>• Schools</li> </ul> <p>Details of these areas are included in the paragraphs below.</p>  |
| 1.08 | <p>Pay negotiations for National Joint Council (NJC) staff were concluded earlier in the year with an overall increase of 2% for staff on grades over point 19 and higher increases for lower grades ranging from 3.7% to 9.1%. The budget for 18/19 included pay inflation at 1% with the risk of a higher pay award recognised as part of the 18/19 budget. Work is underway to calculate the impact on the Council fund (non schools) which will be included in the first detailed monitoring report as a request to be funded from the contingency reserve.</p> <p>The impact for the HRA is anticipated to be in the region of £0.080m which it is anticipated can be met from vacancy savings within the service.</p>   |
| 1.09 | <p><u>Out of County Placements; £1.263m overspend</u></p> <p>There is a projected overspend of £0.630m in Social Services Children's Services which is based on current clients and packages which is likely to be subject to variation during the year. This projection includes externally provided placement costs for 60 children, some of which lie within Flintshire's geographic boundary.</p> <p>There is the potential for this to impact on future years, however due to the volatility in this area it is difficult to forecast accurately. There is also a contingency sum of £0.300m within the projection which is intended to cover the net additional costs of further new placements, ending placements and changes in placement costs.</p> <p>There is a projected overspend of £0.633m within Education &amp; Youth Inclusion Services which is based on current clients and packages, this is also likely to be subject to variation during the year.</p> |

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| 1.10 | <p><b><u>Social Services</u></b></p> <p><u>Children's Services - Family Placement; £0.220m overspend</u></p> <p>There is a projected overspend of £0.220m within this service due to the current demands on the service from additional fostering placements which in some cases wherever practical are a more cost effective and appropriate solution than an out of county placement. The main pressure areas are payments to foster carers and agencies, special guardianship payments, and Christmas supplements.</p>  |
| 1.11 | <p><u>Children's Services - Professional Support; £0.230m overspend</u></p> <p>There is a projected overspend of £0.230m within this service. Most of this relates to an under provision of budget for the ongoing need to support child protection issues via the Victim Contact team.</p>  |
| 1.12 | <p><u>Older People - Provider Services (Contribution to North East Wales Community Equipment Store (NEWCES)); £0.141m underspend</u></p> <p>There is a projected in year underspend of £0.141m following renegotiation with our NEWCES partners. This recurring saving has been earmarked for use as part of the funding strategy for the Council's new extra care facilities, however due to the expected delay in the opening of the new Llys Raddington, Flint extra care facility until September 2018, the planned budget virement to establish the required full year budget for the new facility need not take place until 2019/20.</p> |
| 1.13 | <p><u>Older People - Provider Services - Resources &amp; Regulated Services; £0.130m underspend</u></p> <p>There is a projected in year underspend of £0.130m due to the expected delay in opening of the new Llys Raddington, Flint extra care facility which is not now expected to be open until September 2018.</p>  |
| 1.14 | <p><u>Mental Health Services - Residential Placements; £0.609m overspend</u></p> <p>There is a projected overspend of £0.609m on Mental Health residential placements, which reflects the established pressure of £0.333m as reflected in the 2017/18 final outturn plus a further four new placements to date in the current financial year.</p>  |
| 1.15 | <p><b><u>Streetscene &amp; Transportation</u></b></p> <p><u>Brown Bin Waste Charges; £0.100m underspend</u></p> <p>Following the rollout of charges for Brown Bin Waste collection from 1st April 2018, income is projected to exceed the £0.800m income target by £0.100m due to the number of residents subscribing to the charge.</p>   |

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| 1.16 | <p><u>Car Parking Charges; £0.100m overspend</u></p> <p>Increased charges were implemented in all car parks from the 21st May with the exception of Flint which went live a week later with charges being in place within the town for the first time. The fee increase calculations were based on a full year effect so this slight delay, together with the initial lower uptake in increased charges is likely to result in a an overall income shortfall against the £0.450m increased target of £0.100m.</p>   |
| 1.17 | <p><u>Integrated Transport Unit (ITU); £0.280m overspend</u></p> <p>There is a pressure of £0.280m due to the additional transport costs of pupils from John Summers High School transferring to Connah's Quay High School, Buckley Elfed and the Mold Campus. The part year pressure was met from the Education Transition budget in 2017/18.</p>  |
| 1.18 | <p><u>HRC Site Rationalisation; £0.050m overspend</u></p> <p>Due to delays from negotiations with the land owner, the opening of the new Rockcliffe HRC site is now likely to take place in September with the development of the site continuing at pace. However, the additional running costs of continuing to operate two existing sites in Flint and Connah's Quay up to the opening is estimated at £0.050m.</p>  |
| 1.19 | <p><u>Recycling Income; £0.188m overspend</u></p> <p>The Council are in an existing contract for plastic recycling until September 2018 but following the media coverage regarding China (lead market) earlier this year, the income rate has already dropped from £95/tonne to a capped £50 per tonne resulting in a projected income reduction of £0.042m. It is possible that the market could drop to zero or worse and the Council may then have to pay for disposal, which would mean further costs and complete loss of income for plastics.</p> <p>In addition, with regard to Paper and Card, the Council is currently in an extension period of the main contract with the rate reviewed on an ongoing basis with 6,250 tonnes of mixed card/paper being collected per annum. Market rates are already dropping for these materials and the contractor indicates that the rates are likely to continue to fall. It is anticipated that income loss on both paper and card could be as much as £0.146m in 2018/19. This has been a very fast moving impact and unfortunately, the scale of the reduction was not known during the planning stages of the 2018/19 budget.</p> |
| 1.20 | <p><b>Planning &amp; Environment</b></p> <p><u>Development Management, Building Control; £0.100m overspend</u></p> <p>The Building (Local Authority Charges) Regulations 2010 made new provision authorising local authorities (LAs) in England and Wales to fix their own charges in a scheme. The principles in the charges regulations require authorities to achieve full cost recovery on their building regulation chargeable</p>   |

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|      | <p>work, meaning any deficit at the end of the financial year is mitigated by the use of a reserve and any surplus is transferred into reserve.</p> <p>For 2018/19 Building Control have reviewed and revised their Fees and Charges and have implemented a 5% increase with effect from 1 April. In previous years, fee income shortfalls have resulted in the Building Control Trading Account Reserve balance being drawn down and not augmented. The available reserve to support the service and fund any potential deficit to bring the Trading Account to a neutral position is currently less than £0.015m.</p>  |
| 1.21 | <p><b>Education &amp; Youth</b></p> <p><u>Minority Ethnic Achievement Grant (MEAG)</u></p> <p>The MEAG has been withdrawn by the Welsh Government from 2018/19. To continue this valuable service at the same level, a pressure of £0.174m will be incurred due to the loss of this grant funding.</p> <p>Recently Welsh Government have announced £1.2m nationally to mitigate the impact of the withdrawal in 2018/19 and we are awaiting information for Flintshire's funding allocation.</p> <p>It is requested that any shortfall between the allocation from Welsh Government and the loss of grant is met through the Contingency Reserve in 2018/19.</p> |
| 1.22 | <p><b>Schools</b></p> <p>There are a number of financial risks associated with schools. Six out of eleven secondary schools in Flintshire are in a deficit position (the cumulative total of this deficit is currently £1.6m).</p> <p>The teacher's pay award is yet to be agreed nationally, if there is no additional funding from Government to cover the cost of an increase there will be a significant financial impact on schools.</p> <p>The NJC pay award has had a disproportionate effect on Special Schools because of the high number of support staff employed and this has been identified as a cost pressure.</p>                                |
| 1.23 | <p><b>Governance</b></p> <p><u>Customer Services; £0.100m overspend</u></p> <p>There is a projected overspend of £0.100m within Customer Services which has arisen due to an unachieved efficiency which was included within the 2016/17 budget. This target has been met in the past through use of one off vacancy savings, however scope for this to occur this financial year appear limited. Options to mitigate this overspend will be considered during the year.</p>   |

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| 1.24 | <p><b>Central &amp; Corporate Finance</b></p> <p><u>Minimum Revenue Provision (MRP); £1.400m underspend</u></p> <p>The Council has adjusted its method of calculating the MRP repayment in 2017/18 which has reduced the annual amount payable. This reduction is not included in the 2018/19 budget and £1.400m is anticipated as an in-year underspend.</p>   |
| 1.25 | <p><u>Pension; £0.682m underspend</u></p> <p>There was a significant underspend on the pension contribution account in 2017/18 and early analysis suggests that this will also be the case in 2018/19. The impact of the pay award and other factors will be assessed in detail in advance of the first detailed monitoring report.</p>   |
| 1.26 | <p><u>Auto enrolment; £0.270m underspend</u></p> <p>Budget set aside and held centrally for anticipated increase in employer's superannuation costs due to auto enrolment. To date this increase is not as high as originally anticipated. This mostly is affected by relief workers and the monthly hours they work. Potential efficiency to be assessed as part of MTFS.</p>  |
| 1.27 | <p><u>Carbon Reduction Commitment (CRC); £0.296m underspend</u></p> <p>The CRC scheme closes in 2019. In previous years allowances were over purchased and currently there is a credit balance in the environment agency account. The CRC budget for 18/19 is £0.380m and it is estimated that only £0.085m of this budget will be required to purchase allowances in 18/19.</p>  |
| 1.28 | <p><u>Income Generation; £0.200m overspend</u></p> <p>There is a shortfall against the income budget of approximately £0.200m, with options to raise additional income being considered and pursued as part of the follow up work from the recent Member workshop.</p>  |
| 1.29 | <p><u>VAT Rebate; £1.940m underspend</u></p> <p>Flintshire County Council have successfully claimed a VAT rebate on some sporting exemptions. Historically there was doubt as to whether Local Authorities could be classified as an eligible body for the purpose of exemption from certain sporting activities. However, following a legal challenge against HMRC by another Local Authority and it was ruled that Local Authorities were eligible for this exemption. An early estimate indicates that the Council will receive £1.940m from this rebate on a one-off basis.</p> |
| 1.30 | <p>The emerging risks and issues identified in 1.09 – 1.29 are the significant</p>  |

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|      | items that have been raised at this early stage in the year. A full detailed budget monitoring position will be reported for the first quarter of the year to Cabinet in September.  |
| 1.31 | <p><b><u>UNEARMARKED RESERVES</u></b></p> <p>The final level of Council Fund Contingency Reserve brought forward into 2017/18 was £5.134m as detailed in the 2016/17 outturn report elsewhere on this agenda (subject to Audit).</p> |

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| <b>2.00</b> | <b>RESOURCE IMPLICATIONS</b>   |
| 2.01        | The Budget Monitoring Report reflects the planned use of the financial resources of the Council for the current financial year and details the variations occurring to date. |

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| <b>3.00</b> | <b>CONSULTATIONS REQUIRED / CARRIED OUT</b> |
| 3.01        | None Required.                              |

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| <b>4.00</b> | <b>RISK MANAGEMENT</b>                            |
| 4.01        | As identified within the main body of the report. |

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| <b>5.00</b> | <b>APPENDICES</b> |
| 5.01        | None.             |

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| <b>6.00</b> | <b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>   |
| 6.01        | <p>None required</p> <p><b>Contact Officer:</b> Sara Dulson<br/>Finance Manager</p> <p><b>Telephone:</b> 01352 702287</p> <p><b>E-mail:</b> <a href="mailto:sara.dulson@flintshire.gov.uk">sara.dulson@flintshire.gov.uk</a></p> |

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| <b>7.00</b> | <b>GLOSSARY OF TERMS</b>  |
| 7.01        | <b>Budget:</b> 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.

**Intermediate Care Fund:** Funding provided by Welsh Government to encourage integrated working between local authorities, health and housing.

**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.