

## CABINET

<b>Date of Meeting</b>	Tuesday, 18 <sup>th</sup> December 2018
<b>Report Subject</b>	Revenue Budget Monitoring 2018/19 (month 7)
<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 monthly report provides the latest revenue budget monitoring position for 2018/19 for the Council Fund and Housing Revenue Account. This report presents the position, based on actual income and expenditure, as at Month 7 of the financial year. The report projects how the budget would stand at the close of the financial year if all things remained unchanged.

The projected year end position, without new actions to reduce cost pressures and/or improve the financial return on efficiency planning and cost control is:

#### **Council Fund**

- An operating deficit of £0.325m (£0.222m at Month 6)
- A projected contingency reserve balance as at 31 March 2019 of £7.347m this reduces to £5.447m when taking into account agreed contributions for the 2019/20 budget

#### **Housing Revenue Account**

- Net in-year revenue expenditure forecast to be £0.067m lower than budget
- A projected closing balance as at 31 March 2019 of £1.165m

### RECOMMENDATIONS

1	To note the overall report and the projected Council Fund contingency sum as at 31 <sup>st</sup> March 2019.
2	To note the projected final level of balances on the Housing Revenue Account (HRA).

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MONTH 7 POSITION</b>																																																																
1.01	<p>Council Fund Projected Position</p> <p>The projected year end position, without mitigation to reduce cost pressures and improve the yield on efficiency planning, is as follows:</p> <ul style="list-style-type: none"> <li>• An operating deficit of £0.325m</li> <li>• A projected contingency reserve balance as at 31 March 2019 of £7.347m which reduces to £5.447m when taking into account agreed contributions for the 2019/20 budget</li> </ul>																																																																
1.02	<p>Projected Position by Portfolio</p> <p>The table below shows the projected position by portfolio:</p> <table border="1"> <thead> <tr> <th><b>TOTAL EXPENDITURE AND INCOME</b></th> <th><b>Revised Budget</b></th> <th><b>Projected Outturn</b></th> <th><b>In-Year Over / (Under) spend</b></th> </tr> <tr> <th></th> <th><b>£m</b></th> <th><b>£m</b></th> <th><b>£m</b></th> </tr> </thead> <tbody> <tr> <td>Social Services</td> <td>65.211</td> <td>65.000</td> <td>(0.212)</td> </tr> <tr> <td>Out of County</td> <td>7.274</td> <td>9.065</td> <td>1.791</td> </tr> <tr> <td>Education &amp; Youth</td> <td>8.261</td> <td>8.125</td> <td>(0.136)</td> </tr> <tr> <td>Schools</td> <td>89.937</td> <td>89.937</td> <td>0.000</td> </tr> <tr> <td>Streetscene &amp; Transportation</td> <td>30.243</td> <td>31.313</td> <td>1.070</td> </tr> <tr> <td>Planning &amp; Environment</td> <td>5.663</td> <td>5.663</td> <td>0.000</td> </tr> <tr> <td>People &amp; Resources</td> <td>4.383</td> <td>4.382</td> <td>0.000</td> </tr> <tr> <td>Governance</td> <td>8.248</td> <td>7.971</td> <td>(0.277)</td> </tr> <tr> <td>Strategic Programmes</td> <td>4.853</td> <td>4.853</td> <td>0.000</td> </tr> <tr> <td>Housing &amp; Assets</td> <td>13.498</td> <td>13.427</td> <td>(0.071)</td> </tr> <tr> <td>Chief Executive</td> <td>3.013</td> <td>2.700</td> <td>(0.314)</td> </tr> <tr> <td>Central &amp; Corporate Finance</td> <td>23.745</td> <td>22.219</td> <td>(1.526)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Total</b></td> <td><b>264.328</b></td> <td><b>264.653</b></td> <td><b>0.325</b></td> </tr> </tbody> </table>	<b>TOTAL EXPENDITURE AND INCOME</b>	<b>Revised Budget</b>	<b>Projected Outturn</b>	<b>In-Year Over / (Under) spend</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	Social Services	65.211	65.000	(0.212)	Out of County	7.274	9.065	1.791	Education & Youth	8.261	8.125	(0.136)	Schools	89.937	89.937	0.000	Streetscene & Transportation	30.243	31.313	1.070	Planning & Environment	5.663	5.663	0.000	People & Resources	4.383	4.382	0.000	Governance	8.248	7.971	(0.277)	Strategic Programmes	4.853	4.853	0.000	Housing & Assets	13.498	13.427	(0.071)	Chief Executive	3.013	2.700	(0.314)	Central & Corporate Finance	23.745	22.219	(1.526)					<b>Total</b>	<b>264.328</b>	<b>264.653</b>	<b>0.325</b>
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1.03	<p>There is an increase in the operating deficit of £0.103m from the previous month (deficit of £0.222m) and the reasons for these changes are summarised in Appendix 1 with the key significant changes explained in paragraphs 1.04 to 1.06 below. The reasons for the projected variances in</p>																																																																

	all Portfolio areas are summarised within Appendix 2.
1.04	<p><b>Out of County Placements</b></p> <p>The projected overspend for Out of County Placements has increased by £0.207m from the previous month.</p> <p>The Children's Service element has increased by £0.226m due to the net impact of six new placements and three placements ending. This is offset by a decrease in costs for the Education and Youth element by £0.019m due to the net impact of four placements ending and three placements starting together with some minor changes to current placement costs.</p>
1.05	<p><b>Disability Services (Resources &amp; Regulated Services) – Health Contributions</b></p> <p>The level of income contributions from Betsi Cadwaladr University Health Board (BCUHB) for a number of joint funded care packages is currently under discussion and there is a risk that some of the expected funding may not be received. To manage this risk it is considered prudent to account for a reduction in the projected level of expected income of £0.200m.</p>
1.06	<p><b>Employers Contribution to the Pension Fund</b></p> <p>The impact of auto enrolment has been far less than anticipated and the projected underspend in this area has now increased by £0.127m to £0.400m.</p>
1.07	<p><b>Tracking of In-Year Risks and Emerging Issues</b></p> <p>At the time of setting the Budget for 2018/19 a number of significant risks were identified and an update is provided below.</p>
1.08	<p><b>Out of County Placements</b></p> <p>A further risk identified at the time of setting the 2018/19 budget was the rising social care costs, and the upward trend in the number of cases of Out of County placements across Wales. This was partly addressed by the inclusion of an additional £0.500m in the budget proposals for 2018/19 however the volatility in demand and the impacts on service costs cannot be predicted with any certainty. The main influence on this increase is the Social Services and Wellbeing Act which has led to a higher number of court outcomes and placements which has increased the financial pressure on this service area.</p> <p>The month 7 report details the projected outturn as £1.791m higher than budget, which is an increase to the amount reported at month 6, however costs can be subject to volatility and are likely to change.</p>
1.09	<p><b>Achievement of Planned In-Year Efficiencies</b></p> <p>The 2018/19 budget includes £5.511m of specific efficiencies which are closely tracked and monitored. In 2017/18 the level of efficiency achievement was 94% which was an improvement on the 91% achieved</p>

	<p>during the previous year. The Council aims to achieve a 95% rate in 2018/19 as reflected in the MTFS KPI's.</p> <p>The current assessment of the efficiencies to be achieved in 2018/19 shows that £5.341m or 97% of the efficiencies will be achieved. The risk remains that any ongoing under-achievement of efficiencies will have a recurring and negative impact on the 2019/20 budget. Further details on the current status on efficiencies can be seen in Appendix 3 with any impact for 2019/20 being reviewed as part of the ongoing work on the Medium Term Financial Strategy.</p>
1.10	<p><b>Other Tracked Risks</b></p> <p>In addition, there are a number of risks being tracked that may be subject to change and these are summarised below:</p>
1.11	<p><b>Independent Inquiry into Child Sexual Abuse (IICSA)</b></p> <p>IICSA have required the council to produce a statement on the handling of historic child sexual abuse claims. The statement will need to cover how litigation between 1992 and 2000 was handled. No one remains at the council from that time who has knowledge of the cases. The external solicitors who acted jointly for us and our insurers are being instructed to review their files and supply the information.</p> <p>The initial cost of this work will be a minimum of £0.015m and this could increase significantly if IICSA do not agree to narrow the scope of the statement in the way we have requested.</p> <p>In addition payments have been made during the year to settle historic child abuse cases which pre-date Flintshire. A total of £0.019m has been paid to date in 2018/19, these costs are met from the Contingency Reserve and this amount is reflected in appendix 4. There are a number of outstanding cases still to be settled and it is difficult to estimate the timing and full financial impact of these.</p>
1.12	<p><b>Income</b></p> <p>The Council introduced its Income Strategy in late 2017. A target of £0.200m remains to be achieved from the identification of new sources of income and the review of fees and charges. The Council now has additional capacity to pursue this strategy, a number of potential opportunities will be considered as part of business planning and annual review as well as one off opportunities to mitigate this in-year.</p>
1.13	<p><b>Recycling Income</b></p> <p>In past years the market rate for income received from recycling plastic, paper and card has been extremely volatile and can fluctuate rapidly. Recycling income is already expected to be £0.165m less than budgeted for and there is a risk that fluctuating market rates may reduce the shortfall further.</p>

1.14	<p><b>Schools – Risks and Impacts</b></p> <p>The schools overall budget for 2018/19 included an uplift in recurring funding of £1.140m and additional one-off funding of £0.460m. At the time of setting the budget the outcome of pay awards for teacher and non-teacher staff was not known.</p> <p>The outcome of the these pay awards will have a significant impact on school budgets which are detailed below:</p>
1.15	<p><u>Teachers Pay</u></p> <p>As part of the Provisional Settlement announcement Welsh Government notified that additional funding will be allocated to Authorities to part fund the pay award in 2018/19. A recent announcement by the First Minister advised of an all Wales amount of £7.5m for teacher pay in both 2018/19 and 2019/20. Flintshire are awaiting confirmation of the timing and specific amount for the Council of the 2018/19 funding contribution which, when received, will be passported in full to schools.</p>
1.16	<p>In planning for the 2019/20 budget the First Minister’s announcement allows the Council to move to the previously advised minimum position of providing a 1% uplift in the base funding of schools meaning that schools will need to share the impact of the costs.</p>
1.17	<p><b>Other In-Year Issues</b></p> <p><b>Inflation</b></p> <p>Included within the 2018/19 budget are provision for pay (£0.937m), food (£0.124m), fuel (£0.069m) and Energy (£0.442m). As in previous years, these amounts are held centrally until there is an evidenced business need identified.</p>
1.18	<p>An allocation of £0.075m for Energy has been transferred to the Street Lighting service to reflect the additional cost impact.</p>
1.19	<p>At this time it is anticipated that all of the above will be required apart from £0.110m food inflation and is reflected in the outturn figure. This area will be kept under review over the winter with any further underspend considered as part of the 2019/20 budget solutions.</p>
1.20	<p><b>Reserves and Balances</b></p> <p>Un-earmarked Reserves</p> <p>The 2017/18 outturn reported to Cabinet in July showed un-earmarked reserves at 31 March 2018 (above the base level of £5.769m) of £7.928m.</p> <p>As agreed in the 2018/19 budget an amount of £1.945m was approved as part of the strategy to balance the budget and in addition County Council on 1 March approved a one off amount of £0.460m for schools, on a temporary basis. The available Contingency Reserve after taking account of these contributions is therefore £5.523m.</p>

1.21	At month 4 it was agreed that the amount recovered due to a change in accounting policy for the Minimum Revenue Provision of £1.400m and a VAT rebate on some sporting exemptions for £1.940m would be transferred to the Contingency Reserve.																																																																																						
1.22	Taking into account the current projected overspend at this stage, and previously agreed allocations, the balance on the Contingency Reserve at 31 March 2019 is projected to be £7.347m as detailed in appendix 4.																																																																																						
1.23	As part of the budget strategy work for 2019/20 an agreed contribution from the Contingency Reserve of £1.900m will be used to assist in closing the budget gap on a one off basis. After considering this impact, the total available balance of the Contingency Reserve which can be drawn upon is £5.447m.																																																																																						
1.24	<p><b>Earmarked Reserves</b></p> <p>The table below gives a summary of earmarked reserves as at 1 April 2018 and provides an estimate of projected balances as at the end of the current financial year.</p>																																																																																						
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	Total	14.876	11.096
1.26	<b>Housing Revenue Account</b>		
	The 2017/18 Outturn Report to Cabinet on 17 July 2018 showed an un-earmarked closing balance at the end of 2017/18 of £1.116m and a closing balance of earmarked reserves of £0.802m.		
1.27	The 2018/19 budget for the HRA is £34.381m which includes a budgeted movement of £0.018m from reserves. The projected outturn is an underspend of £0.067m which has the impact of bringing the closing un-earmarked reserves balance to £1.165m which at 3.4% of total expenditure satisfies the prudent approach of ensuring a minimum level of 3%.		
1.28	There is an increase of £0.081m in the budget contribution towards capital expenditure (CERA) of £12.170m. The increase in this contribution decreases the level of borrowing required to fund the proposed capital programme.		

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	There are three categories of risks covered in the main section of the report. These are in-year risks and emerging issues, achievement of planned in-year efficiencies and other tracked risks. These risks are included from paragraph 1.08 to 1.16.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1: Council Fund – Movement in Variances from Month 6 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

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

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p><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.</p> <p><b>Council Fund:</b> the fund to which all the Council's revenue expenditure is charged.</p> <p><b>Financial Year:</b> the period of twelve months commencing on 1 April.</p> <p><b>Housing Revenue Account:</b> 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.</p> <p><b>Projected Outturn:</b> projection of the expenditure to the end of the financial year, made on the basis of actual expenditure incurred to date.</p> <p><b>Reserves:</b> 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.</p> <p><b>Revenue:</b> 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.</p> <p><b>Underspend:</b> 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.</p> <p><b>Variance:</b> 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.</p> <p><b>Virement:</b> 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</p>

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.