

**CABINET**

<b>Date of Meeting</b>	Tuesday, 17 January 2017
<b>Report Subject</b>	Revenue Budget Monitoring 2016/17 (month 8)
<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 2016/17 for both the Council Fund and Housing Revenue Account.

The report is based on actual income and expenditure as at Month 8 of the financial year. The report also projects how the budget would stand at the close of the financial year if all things remained equal.

The projected year end position, without any further action to reduce cost pressures or to identify new efficiencies would be as follows:-

**Council Fund**

- The net in year position comprises of an operating deficit of £1.810m - an increase in the deficit of £0.039m from the position reported last month.
- However, the overall projected in-year position has improved by £2.886m due to the change in accounting policy for MRP as agreed by County Council. This has the effect of eliminating the operating deficit.
- Projected contingency reserve balance of £4.268m

**Housing Revenue Account**

- Net in year expenditure forecast to be £0.037m higher than budget
- Projected closing balance as at 31 March 2017 of £1.061m

## RECOMMENDATIONS

1	To note the overall report and the projected Council Fund contingency sum as at 31 <sup>st</sup> March 2017 and continue to support the work on actions and options for mitigating action.
2	To note the projected final level of balances on the Housing Revenue Account.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE MONTH 8 POSITION</b>
1.01	The operating deficit reported is £1.810m above budget which is an increase of £0.039m from the deficit reported last month. As resolved by Cabinet work is ongoing to identify actions and options to reduce the operating deficit through detailed analysis of overspending areas.
1.02	The operating deficit in-year is in effect 'written-off' by the change in the Council's policy for accounting for Minimum Revenue Provision (MRP) which was reviewed and approved by Council on 6 December 2016 as part of the 2017/18 budget proposals. This has resulted in a positive impact of £2.886m on the 2016/17 budget as part of providing a major efficiency for 2017/18, and means that the projected spend is now £1.076m less than the budget.
1.03	<b>Transport Costs</b> The Council, along with neighbouring councils, was given notice in July that one of its contracted transport operators, was going into immediate liquidation. Urgent action was required to secure the school and public transport subsidised routes operated by the transport operator.
1.04	The procurement of full replacement service providers is projected to incur an additional cost of £0.440m for the remainder of 2016/17.  The Welsh Government has offered a provisional grant award to the three local authorities affected for 2016/17. Negotiations are ongoing with Welsh Government and the neighbouring authorities over distribution of the grant. Negotiations should be concluded in time for the grant income to be reported in the month 9 report.

1.05	<p>Council Fund Latest in Year Forecast</p> <p>The table below shows the projected position by portfolio.</p> <table border="1" data-bbox="304 271 1386 1290"> <thead> <tr> <th data-bbox="304 271 692 499"><b>TOTAL EXPENDITURE AND INCOME</b></th> <th data-bbox="692 271 868 499"><b>Original Budget</b></th> <th data-bbox="868 271 1038 499"><b>Revised Budget</b></th> <th data-bbox="1038 271 1219 499"><b>Projected Outturn</b></th> <th data-bbox="1219 271 1386 499"><b>In-Year Over / (Under) spend</b></th> </tr> <tr> <td></td> <td data-bbox="692 461 868 499"><b>£m</b></td> <td data-bbox="868 461 1038 499"><b>£m</b></td> <td data-bbox="1038 461 1219 499"><b>£m</b></td> <td data-bbox="1219 461 1386 499"><b>£m</b></td> </tr> </thead> <tbody> <tr> <td data-bbox="304 499 692 551">Social Services</td> <td data-bbox="692 499 868 551">58.534</td> <td data-bbox="868 499 1038 551">60.829</td> <td data-bbox="1038 499 1219 551">61.425</td> <td data-bbox="1219 499 1386 551">0.595</td> </tr> <tr> <td data-bbox="304 551 692 602">Community &amp; 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1.06	The reasons for the projected variances are summarised within Appendix 2 with key significant portfolio variances explained in paragraphs 1.09 to 1.12.																																																																																
1.07	<p><b>Significant Budget Movements between Original and Revised Budget</b></p> <p>As stated in the month 7 report a review of Corporate Administration has been completed which agreed to transfer portfolio administration teams together into a combined service, under a single manager, that serves County Hall and Flint offices. This has resulted in a budget movement from Governance (£0.078m), Community &amp; Enterprise (£0.026) and Planning &amp; Environment portfolios (£0.251m) to Social Services in month 8.</p>																																																																																
1.08	The Education ICT budget has been delegated to schools from the ICT Service, this has resulted in a transfer of £0.389m from Governance to Schools.																																																																																
1.09	<p><b>Streetscene and Transportation</b></p> <p>There is a significant variance within the portfolio of £0.779m which is a decrease of £0.099m from month 7. As referenced in 1.04, negotiations with</p>																																																																																

	Welsh Government for a proportion of additional grant funding are due to be concluded before Month 9 which will further reduce this variance. Full details of all other variances are given in Appendix 2.				
1.10	<b>Social Services</b>				
	Within Social Services there is a reported overspend of £1.320m for Children's Services which mainly relates to Out of County Placements (£0.626m) and Professional Support (£0.686m).				
1.11	The reported overspend for Out of County Placements is due to a number of complex cases and the new Social Services and Wellbeing Act which has led to a higher number of court outcomes and placements which will need to be tracked. A critical review of a number of placements made by court order is being undertaken. The financial impact of this emerging pressure will need to be considered as part of the Medium Term Financial Strategy (MTFS). Legal and Social Services managers are working together to make a compelling case for alternative care arrangements to placements at forthcoming court cases, and so reduce the level of out of county placement being made.				
1.12	The Professional Support service currently has a small number of permanent social work vacancies. Given the high levels of demand, and complexity of work, there is insufficient capacity to support the children/families within existing staffing compliment. Processes are in place for recruitment to the vacant posts but, like other authorities, we are experiencing challenges in recruiting experienced qualified social workers. In the short term we have a small number of posts covered by agency staff whilst we work to attract appropriately qualified, experienced and high calibre staff. Work is being undertaken to develop a strategic approach to managing demand through service development as well as attracting and supporting permanent staff.				
1.13	<b>Programme of Efficiencies</b>				
	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.				
1.14	Appendix 3 provides detail on the latest position where there is a variation to the level of efficiency achievable compared to the budget.				
1.15	This shows that it is currently projected that £9.398m (89%) will be achieved resulting in a net underachievement of £1.123m - a decrease of £0.072m. The changes in efficiency assumptions since month 7 are summarised below:				
		<b>Original Efficiency</b>	<b>Previous Month Revised</b>	<b>Current Month Revised</b>	<b>Increase/ (Decrease) between</b>

			Efficiency	Efficiency	months
	Portfolio	2016/17 £(m)	2016/17 £(m)	2016/17 £(m)	2016/17 £(m)
	<b><u>Planning &amp; Environment</u></b> Self-financing for Public Protection Services. - Animal & Pest Control. - Licencing Charging.	0.050	0.020	0.050	0.030
	Various Planning Efficiencies;	0.101	0.101	0.000	(0.101)
	<b><u>People &amp; Resources</u></b> Finance Modernisation	0.135	0.093	0.092	(0.001)
1.16	<b>Inflation</b>  Included within the 2016/17 budget are provision for pay (£0.936m), targeted price inflation (£0.573m) and income (£0.185m).				
1.17	Following the allocation to portfolios of the provisions described in paragraph 1.16 there is a remaining balance of £0.070m which is included within the overall outturn figure.				
1.18	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.				
	<b>Reserves and Balances</b>				
1.19	<b>Un-earmarked Reserves</b>  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.				
1.20	Taking into account the current projected overspend at Month 8 and previously agreed allocations the balance on the Contingency Reserve at 31 March 2017 is projected to be £4.268m as detailed in appendix 4.				
1.21	<b>Earmarked Reserves</b>  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.				

1.22	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 9 report.
1.23	<b>Housing Revenue Account</b>  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.
1.24	The 2016/17 budget for the HRA is £31.979m which includes a movement of £0.080m from reserves.
1.25	The Month 8 monitoring for the HRA is projecting in year expenditure to be £0.037m higher than budget and a closing balance as at 31 March 2017 of £1.061m, which at 3.3% of total expenditure satisfies the prudent approach of ensuring a minimum level of 3%.

<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 eight 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	<b>Achievement of Planned In-Year Efficiencies</b>  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 89% of the efficiencies would be achieved. There is an ongoing risk that the shortfall cannot be mitigated other than by drawing on temporary funding from the Contingency Reserve. There is a further risk that any ongoing under-achievement 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: stable/green risk for 2016/17 only.
4.02	<b>In-Year Reductions in Government Specific Grants</b>  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

	<p>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 though variations should not occur at this late stage of the financial year. Although the in-year risk has now reduced a significant risk still exists for 2017/18 onwards. Risk status: stable/green risk for 2016/17 only.</p>
4.03	<p><b>Cost Pressures in Residential and Domiciliary Care</b></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, if additional funding was not available to fund these increases. The Council has secured £0.500m from the Intermediate Care Fund (ICF) to part fund these costs. This will mean that only an amount of £0.146m will need to be met 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.</p> <p>Risk status: stable/amber risk for 2016/17 only.</p>
4.04	<p><b>Municipal Mutual Insurance (MMI)</b></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 in 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. MMI have recently published their 2016 Accounts which indicate no further increase in the levy at this time. The in-year risk is therefore closed although this risk will remain next year as the risk of a further increase in the levy remains open as legal work on claims is protracted with uncertain outcomes.</p> <p>Risk status: stable/green risk.</p>
4.05	<p><b>Historic Child Abuse Settlements</b></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 not possible to estimate the full financial impact of these at this stage. The financial provision set aside may not prove to be sufficient to meet the total liabilities of all cases when closed. Within the month 3 report a contribution from the</p>

	contingency reserve was agreed to meet the settlement costs paid along with any future costs. The settlement costs incurred to date total £0.146m. Risk status: unstable/amber risk.
4.06	<p><b>Landfill Site Energy Income</b></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 and a budget pressure has been included from 2017/18. Risk status: stable/green risk.</p>
4.07	<p><b>Orphaned Industrial Site at Sandycroft</b></p> <p>The contract for the removal of all Isosorbide Dinitrate (ISDN) chemical deposits, site cleansing and site close-down will come to a conclusion in the early winter. The contract has had to be flexible to meet the unforeseen nature of the materials and how they were left and stored given the unique circumstances of this case (the former Euticals company). The contract to remove the higher level risk (ISDN) has been completed at the end of December 2016. Final site works will be completed in the early new year in readiness for site disposal. Risk status: unstable/amber risk.</p>
4.08	<p><b>Infrastructure for improvement works at Bagillt</b></p> <p>Flooding events in the Bagillt area resulted in a number of properties being flooded. Drainage works have been carried out to improve the existing system and further investigatory works are being undertaken which are revealing further issues that are being addressed. This risk is now closed.</p>
4.09	<p><b>Procurement of Transport Services</b></p> <p>As explained in 1.04 above there is an in-year budget risk of an additional procurement cost of £0.440m for local transport services. The Welsh Government has offered a provisional grant award to the three North East Wales local authorities for 2016/17 only. Negotiations are ongoing with Welsh Government and the neighbouring authorities on grant distribution. Risk status: unstable/amber risk.</p>
4.10	<p><b>Minimum Revenue Provision (MRP)</b></p> <p>The Council has reviewed its policy of accounting for MRP in conjunction with its Treasury Management Advisors. This has resulted in a reduction to the in-year amount and is reflected in the outturn position. This risk is now closed.</p>
4.11	<p><b>Out of County Placements</b></p> <p>The risk is the volatility in demand and the impacts on service costs which cannot be predicted with any certainty. There is always a risk of significant variances occurring although this area continues to be closely monitored.</p>



	<p>The main influence on this increase is the new Social Services and Wellbeing Act which has led to a higher number of court outcomes and placements has increased the financial pressure on this service area. Legal and Social Service Managers are working together to make a compelling case for alternative care arrangements to placements at forthcoming court cases, and so reduce the level of Out of County placement being made.</p> <p>Risk status: unstable/red risk.</p>
4.12	<p><b>Children’s Services</b></p> <p>Children’s Services are experiencing high levels a demand including child protection work and the need for intensive support for older children with complex needs. Priorities are being developed to help respond to increasing service demand and to provide a greater range of targeted community support.</p> <p>Risk status: unstable/red risk.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1: Council Fund – Movement in Variances from Month 7  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>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>None required</p> <p><b>Contact Officer:</b> Sara Dulson  <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</p>

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.

**Minimum Revenue Provision (MRP):** A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Authorities must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Government.