

## CABINET

<b>Date of Meeting</b>	Tuesday, 22 <sup>nd</sup> January 2019
<b>Report Subject</b>	Revenue Budget Monitoring 2018/19 (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 2018/19 for the Council Fund and Housing Revenue Account. This report presents the position, based on actual income and expenditure, as at Month 8 of the financial year.

This report includes the impact of the grant funding announced by Welsh Government to support costs associated with Supporting Sustainable Social Services which equal £0.611m. Details on the use of this funding are shown in 1.04.

The Council has received confirmation of its allocation of the £7.5m announced to contribute to the Teacher Pay Award. This will be passported in full to schools as referenced in 1.15.

A capital grant of £1m for road refurbishment has been announced by Welsh Government. The options for dealing with this grant are currently being considered and any impact on revenue will be included in future reports.

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 surplus of £0.026m (£0.325m at Month 7).
- A projected contingency reserve balance as at 31 March 2019 of £7.689m, which, when taking into account the agreed contributions for the 2019/20

budget reduces to £5.789m.

### 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 8 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 surplus of £0.026m</li> <li>• A projected contingency reserve balance as at 31 March 2019 of £7.689m which reduces to £5.789m when taking into account agreed contributions for the 2019/20 budget</li> </ul> <p>The projected outturn is not anticipated to significantly change between now and year-end unless there is a change to the activity level of services or there is an impact from any of the identified risks as reported in paragraphs 1.08 to 1.16.</p>																										
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>65.234</td> <td>64.734</td> <td>(0.500)</td> </tr> <tr> <td>Out of County</td> <td>7.274</td> <td>8.991</td> <td>1.717</td> </tr> <tr> <td>Education &amp; Youth</td> <td>8.398</td> <td>8.250</td> <td>(0.148)</td> </tr> <tr> <td>Schools</td> <td>89.776</td> <td>89.776</td> <td>0.000</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	65.234	64.734	(0.500)	Out of County	7.274	8.991	1.717	Education & Youth	8.398	8.250	(0.148)	Schools	89.776	89.776	0.000
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	Streetscene & Transportation	30.243	31.532	1.290
	Planning & Environment	5.663	5.655	(0.008)
	People & Resources	4.383	4.368	(0.014)
	Governance	8.248	7.869	(0.380)
	Strategic Programmes	4.198	4.197	(0.001)
	Housing & Assets	13.520	13.411	(0.108)
	Chief Executive	2.990	2.663	(0.327)
	Central & Corporate Finance	24.402	22.856	(1.546)
	<b>Total</b>	<b>264.328</b>	<b>264.303</b>	<b>(0.026)</b>
1.03	<p>The projected outturn is reporting an operating surplus of £0.026m. This is a reduction in the projected outturn of £0.351m from the previous month where an operating deficit of £0.325m was reported. 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 all Portfolio areas are summarised within Appendix 2.</p>			
1.04	<p><b>Social Services</b></p> <p>Welsh Government has awarded a £14m one-off grant to Local Authorities in Wales to Support Sustainable Social Services during 2018/19.</p> <p>The allocation awarded to Flintshire County Council is £0.611m and is to be used for the following;</p> <ol style="list-style-type: none"> <li>Help to address workforce challenges</li> <li>Focus on mitigating existing children's services pressures</li> <li>Respond to current pressures in core social services to be better positioned to manage unexpected or increased demands</li> <li>Plan for and respond to additional demands on social care resources as a result of winter pressures</li> </ol> <p>This grant is to be for these purposes across various service areas within Social Services and is apportioned as follows;</p> <ol style="list-style-type: none"> <li>Mental Health Services, Residential Placements £0.150m</li> <li>Children's Services, Family Placement £0.150m</li> <li>Children's Services, Out of County Placements £0.311m</li> </ol> <p>In each of the instances above the grant is treated as additional income to the service area and has therefore reduced the projected outturn. These movements are detailed in appendix 1.</p>			
1.05	<p><b>Out of County Placements</b></p> <p>The projected overspend for Out of County Placements has decreased by £0.075m from the previous month.</p> <p>The Children's Service element is reporting a net reduction of £0.031m.</p>			

	<p>There have been 5 new placements this month which have increased projected costs by £0.280m, this is mitigated by using an allocation of £0.311m from the Support Sustainable Social Services grant as reported in paragraph 1.04 above.</p> <p>The Education &amp; Youth element has also reduced, by £0.044m, caused by several placements which have either ended or are due to end this financial year.</p>
1.06	<p><b>Streetscene and Transportation</b></p> <p>Due to increased pupil numbers, schools are oversubscribed from September 2018, which has meant extra School Buses being required to transport pupils. There is a projected increase of 95 pupils qualifying for transport resulting in an additional pressure of up to £0.150m on the service (based on the average transport cost per pupil). However, the Integrated Transport Unit (ITU) is attempting to mitigate this increase as much as possible and an update on this will be provided in a subsequent Revenue Budget Monitoring report.</p> <p>For Special Educational Needs there is an increase of 20 routes for pupils with complex needs requiring solo transport has been required with additional cost of up to £0.180m. The ITU are currently reviewing the additional demands and the impact of aligning as many of these to existing routes and the outcome and impact of this will be further reported in a subsequent Revenue Budget Monitoring report.</p> <p>The pressure of £0.242m for additional school transport requirements for pupils to Connahs Quay, Buckley and Mold has been offset by a contribution of £0.109m from the school transition budget within Education.</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 8 report details the projected outturn as £1.717m higher than budget, which is a slight decrease of £0.075m to the amount reported at month 7, however this decrease has occurred due to an allocation of £0.311m from the Support Sustainable Social Services grant. Costs can be subject to volatility and are likely to change through the year.</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 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 £5.326m 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 £0.028m 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 and 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.</p>

	Recycling income is already expected to be £0.185m less than budgeted for and there is a risk that fluctuating market rates may reduce the shortfall further.
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>The Final Settlement confirmed that additional funding will be allocated to Authorities to part fund the pay award in 2018/19. An announcement by the First Minister also advised of an all Wales amount of £7.5m for teacher pay in both 2018/19 and 2019/20. Flintshire have now received confirmation of the 2018/19 funding contribution for an amount of £0.784m, which will be passported in full to schools once it has been received.</p>
1.16	In planning for the 2019/20 budget the Final Settlement does not change the previous position which allows the Council to provide a 1% uplift in the base funding of schools, meaning that schools will need to share the impact of the costs.
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	An allocation of £0.075m for Energy has been transferred to the Street Lighting service to reflect the additional cost impact.
1.19	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 to assess the impact of energy costs on the outturn position.
1.20	<p><b>Reserves and Balances</b></p> <p><b>Un-earmarked Reserves</b></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</p>

	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.
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 £7.689m 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 £5.789m.
1.24	<b>Earmarked Reserves</b>  Earmarked reserves are monitored in accordance with the reserves protocol. A summary of earmarked reserves as at 1 April 2018 and an estimate of projected balances as at the end of this financial year will be included in the month 9 report.
1.25	<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.
1.26	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%.
1.27	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>
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3.01	None required.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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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.
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<b>5.00</b>	<b>APPENDICES</b>
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5.01	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
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<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
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6.01	None required.  <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>
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<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
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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>
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**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.