

Report of the Cabinet Member for Finance and Strategy

Cabinet - 16 July 2015

REVENUE FINANCIAL OUTTURN 2014/15

Purpose:	To report on the detailed Revenue financial outturn for 2014/15
Policy Framework:	Sustainable Swansea Budget Plan 2014/15
Reason for Decision:	This report is presented to Cabinet in accordance with Financial Procedure Rules.
Consultation:	Cabinet Members, Executive Board, Legal Services and Corporate Equalities Unit.
Recommendation:	It is recommended that the comments and variations in this report be noted, and that the proposed reserve transfers detailed in Section 5.3 are approved
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1. Introduction and Context

- 1.1 This report details net expenditure for 2014/15 and highlights variances from the revised budget.
- 1.2 The Revenue Budget for 2014/15 was approved at Council on 18th February 2014. The budget as approved included the following proposals to address a budget deficit of £26.235m:-

<u>Budget Proposals 2014/15</u>	£'000	£'000
Specific savings proposals – (Appendix 'D')	-10,867	
Workstream savings (Appendix 'E')	-5,600	-16,467
Net effect of Council tax base increase and proposed charges		-4,043
Net increase in levies		26
Reduction in inflation provision		-951
Reduction in contribution to the Contingency Fund		-2,600
Use of General Reserves		-2,200
<u>Overall resourcing</u>		<u>-26,235</u>

- 1.3 The specific savings proposals detailed above were incorporated into Directorate budgets at service level and have been the subject of specific monitoring via the budget savings tracker, reported to Cabinet on a quarterly basis during the year. Achievement of workstream savings has equally been monitored.
- 1.4 2014/15 was also significant in that it marked the introduction, from 1st April 2014, of the Councils single status pay and grading scheme relating to all staff on NJC grades. The scheme specifically excludes Teaching staff, those on the Soulbury Scheme and Senior Officers at Head of Service/Director level.
- 1.5 Staff who were adversely affected by the introduction of the scheme have been subject to a period of pay protection ranging from 12 to 24 months depending on the scale of pay reduction implicit in their allocated grade.
- 1.6 The introduction of the scheme has been accompanied by an extensive appeals process for those staff adversely affected by pay and grading allocations made during the original allocation process. The appeals process is currently ongoing.
- 1.7 In parallel to the introduction of the single status scheme, the Council has made substantial progress during 2014/15 in settling a significant number of equal pay claims which date back over a significant period of time.
- 1.8 The extent to which appeals are successful in terms of job allocation will inevitably affect financial performance on an annual basis and impact on future budget planning.

- 1.9 The modelled costs of single status as at the implementation date have been incorporated in 2015/16 revenue budgets going forward. However, costs in respect of successful appeals – currently running at approximately 70% - have not and any costs arising from appeals will have to be met from within existing Directorate Budgets.
- 1.10 The report that follows details the Revenue outturn position for 2014/15, makes commentary on comparison with in year budget monitoring and, where appropriate, details action already taken in setting the 2015/16 Revenue Budget based on anticipated outcome at quarter 3 of the year. It remains critical that the progress on savings adopted under *Sustainable Swansea* is subject to constant review and update during each financial year and that future budgets are constantly informed by outcomes from the monitoring process.

2. Detailed Outturn Position

- 2.1 Overall expenditure for 2014/15 was £3,251,000 less than the approved budget as follows:

	£000's
Net Expenditure on Services per appendix 'A' (including 2014/15 ER/VR costs)	134
Capital charges	-340
One off VAT reclaim/corporate costs	-776
Inflation provision	-1,049
Other net underspends including Council Tax collection	-1,220
Overall net underspend	-3,251

- 2.2 Details of Service net expenditure variations is given in Section 2.4 and onwards below. The service net expenditure variations include details of non-employee service variations relating to specific activities together with an assessment of the impact of single status implementation where appropriate. Funding for single status additional costs has only been allocated to Directorate budgets for 2014/15 where there is a demonstrable need in terms of overall Directorate financial performance.
- 2.3 The outturn position is based on the assumption that the budgeted contribution of £2.2m from general reserves for 2014/15 **will actually be made**. Recommendations in terms of Reserve Movements and Review are made in Section 5 of this report.
- 2.4 Members will see from the table at 2.1 above that the net underspend at year end is largely the result of underspends arising on **Corporate one off items**. It is important that the context of these items, together with the potential impact on future years, is understood. Details of these items is as follows:-

Item	Value £'000	Explanation	Effect on 215/16 Budget
VAT Refund	-1,700	At any point in time the Council has a number of appeals outstanding regarding the VAT liability of past supplies. Where appeals are successful, any refund will attract interest back to the date of the original supply. The refunds relate to principal and interest on VAT claims	Where appeals are lodged, the outcome is often dependant on the outcome of litigation involving a lead appellant. Given the nature of the claims, they often involve contentious areas and it would be impossible to predict the outcome of any appeals both in terms of timing or amount.
Contribution to corporate bad debt provision	380	Where debts are written off during the year they are done so against an existing provision. The remaining provision is regularly reviewed and a contribution made from revenue where appropriate.	The timing and value of debt written off is variable and subject to detailed review. It would be inappropriate to budget for such a contribution during the annual budget process.
Schools pay protection – Single status.	702	This is one off cost to compensate schools for a 12 month protection period in respect of non teaching staff who were adversely affected by the outcome of single status implementation.	This will continue in 2015/16 but at a substantially reduced level as the pay protection period expires
Inflation provision	-1,049	There has been no call on the inflation provision for 2014/15	This was predicted at quarter 3 and was removed as a budget saving from 2015/16 budget proposals.

Council Tax Collection/Other	-1,220	There have been a number of initiatives with the service during 2014/15 which has led to improvements in collection rates including a commissioned review of single person discounts being awarded and more pro-active early recovery action.	This was predicted at quarter 3 although value is hard to establish until year end adjustments are made. The Council tax base calculation for 2015/16 incorporates the revised level of single person discounts currently awarded.
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2.5 The clear inference from the outturn position is that at a service level the Council has overspent, taking into account unallocated workstream savings, by £719,000. Offsetting this against a net underspend on the contingency fund of -£584,000 gives a net operational overspend of £134,000.

2.5 However, the Directorate outturn position itself is made up of a mix of over and under spends and it is clear that elements of the overspends in particular will continue into 2015/16 and, consequently, management action and, in some case, Member decisions, will be required to address the underlying issues.

2.4 The following set out the major service specific variances in 2014-15.

Corporate Services Directorate

	£
Audit fees	-160,000
Overprovision for CTRS	-765,000
Increased cost of Rent Allowances	95,000
Net Employee variance	-945,000
Other net variances	-14,000
	-1,789,000

Director Comments:-

1. At the start of 2014/15, the Directorate undertook an analysis of the 2013/14 underspend to assess the proportion that was likely to recur. This was assessed at £500k; although it was anticipated that this would increase through staff vacancies during the year.
2. Consequently, the Directorate has reported an end of year underspend at each quarter.

3. This has increased throughout the year because of the over provision for Council Tax Reduction Scheme which, although within the Directorate's budget is a corporate provision. This has occurred because of the complexity of estimating the budget requirement for 2014/15 which was only the second year where these costs became the direct responsibility of the Council. Action has been taken to include a significant ongoing element of this saving into the budget for 2015/16 approved by Council on 24th February 2015.
4. The underspend on audit fees is an in year "windfall" due to a revised assessment of costs from our external auditor based on an increase in the quality of information provided to support performance and financial data. An ongoing element of this saving (£100k) has been included in the 2015/16 approved budget.
5. The final outturn underspend on employees reflects:
 - The start of year assessment of £500k underspend
 - In year management action to reduce discretionary spend and hold vacancies as part of the overall requirement to achieve a balanced budget
 - A plan to create additional capacity in 2015/16 to deliver the changes required to implement the new operating model for Corporate Services and to support Sustainable Swansea

People Directorate - Education

	£
Employment Training	1,170,000
Out of County/Recoupment	264,000
Home to school transport	270,000
Cleaning services	133,000
Music Service	-46,000
Other net variances	<u>-65,000</u>
	1,726,000

People Directorate – Social Services

	£
Child & Family	
Looked after children	-1,965,000
Legal costs in relation to children	-342,000
Court Supported Orders	269,000
Adult Services	
Learning Disability/Mental Health placements	936,000
Domiciliary Care	620,000
Savings not achieved	597,000
Mental Health S117	190,000
Safeguarding	137,000
One off recovery of past care contributions	-400,000
External Residential Care costs	-300,000
Supporting People	-381,000
Other net variances throughout Social Services	<u>234,000</u>
	-405,000

In addition to the above there was an underspend of £248,000 on Poverty and Prevention budgets within the People Directorate.

Directors Comments:-

Education

Significant service and financial pressures have been consistently identified and reporting during the year, amounting to almost £2.5 million. Two inherently volatile and demand led budgets have added to the pressures and by their nature could not be identified earlier in the year, specifically pressures on inter-authority recoupment and home to school transport in relation to pupils with special educational needs. Robust management action has been taken during the year to as far as possible manage and mitigate these pressures through tight control of further spending.

In relation to Employment Training, there is continuing work to contain spending within the reduced funding level, consistent with drawing down the available contract income. However, given the mid-year budget reductions from Welsh Government at very short notice, the scale of the challenge was such that it became impossible to balance the budget in 2014/15. It was equally apparent that the delivery of the challenging savings target in relation to non-school cleaning budgets could only be delivered as fast as the corporate asset management review progressed in terms of reducing the number of sites, together with wider Facilities Management efficiencies with the transfer of the service.

Social Services

Child and Family Social Services continue to experience success in reducing the numbers of children looked after (LAC), and this is reflected in the financial outturn. The Safe LAC reduction strategy has been in place for a number of years and has supported more families to enable solutions that need less local authority support and intervention. The underspend is larger than originally anticipated, though it is important to note that even one family with significant support needs can change this picture significantly, so it is important not to become complacent.

Adult Services has faced a number of financial challenges over the last year, including a reduction in partner agency contributions to high cost Learning Disability and Mental Health placements. Domiciliary care continues to be challenging in terms of on-going recruitment and retention issues, some of which will be addressed through the upcoming Commissioning Review. The new Cabinet in September 2014 took a decision to reconsider the savings relating to residential care and learning disability day care that were outlined in the original 2014/15 budget. Changes in case law relating to how the Council cares for people with Deprivation of Liberty led to increased costs in that area. However, the position with regard to recovering past care contributions provided a better than anticipated position which helped to offset this slightly.

Poverty and Prevention

The Poverty and Prevention Service identified a potential overspend at Quarter 2 and managers took swift action to contain this. As a result, they achieved greater savings that brought the budget to a positive position.

Place Directorate

	£
Waste disposal costs	200,000
Street Cleansing	212,000
Purchase of highways and street cleaning vehicles	497,000
Oldway dilapidation provision	155,000
Civil Parking Enforcement income shortfall	191,000
Park and Ride Income shortfall	128,000
Provision for potential grant/taxation clawback	386,000
Commuted sums paid	215,000
City of Culture	-450,000
Commuted Sums received	-187,000
Insurance cost reductions	-200,000
Concessionary Fares	-100,000
Highways maintenance & repairs	-275,000
Additional rate refunds	-877,000
Estate rental income	-159,000
Increased Income St Davids development	-107,000
Increased income Planning, Pollution control, Crema	-318,000
Waterfront City	-217,000
Other net variances	14,000
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	-892,000

Director Comments:-

1. With the exception of the “windfall” rebates derived through a proactive invest to save initiative the directorate has achieved a balanced out-turn budget. Many of the services within the directorate are income dependant and many other factors affect overall spend levels. The Directorate P&FM manages this process and makes sure that for any unexpected or unforeseen overspend compensatory savings are delivered and this has successfully been achieved for this financial year.
2. In terms of overspends the costs of waste disposal have been influenced by variations in recyclates markets. Street cleansing costs have risen as a result of staff related expenditure.
3. The directorate has attempted to manage an in built cost pressure caused by waste vehicles historically being purchased from grant monies.
4. As part of the agreed accommodation strategy CCS are moving out of Oldway and have accelerated the moves meaning we need to make

“provision” for dilapidations rather than incur them in 15/16. This spend is offset against savings shown in the estate rental line of the underspends.

5. Provision has been made for potential clawback of grant from WEFO and for VAT clawback on disabled Facilities Grants.
6. With respect to the underspends a hold was placed on further expenditure on the City of Culture programme, in agreement with the Cabinet Member, to review the current programme. This work is nearing completion and a revised programme developed.
7. The rate refunds result from a previously agreed “invest to save” project which are subject to a formal appeal process and both success and timeline are outside the Council’s control and therefore impossible to predict. These are “one off backdated rebates” and the annual savings are being captured under sustainable Swansea Asset strand.
8. The increased estate rental income relates largely to additional income from the freehold ownership of the Quadrant, which is not made available until March 2015 and is reflected in forward budget adjustments.
9. Income targets in Economic Regeneration and Planning have been exceeded in relation to the St David’s car park and planning income following a recent unanticipated increase in development. The additional income from WEFO in the Waterfront City project is ring-fenced for City Centre regeneration. Similarly income in Housing and Public Protection has increased, primarily in relation to increased activity at the Crematorium.

3. Items met from the Contingency Fund

- 3.1 The Cabinet Report on 18th February 2014 highlighted a number of items which would need to be met from the Contingency Fund in 2014/15.
- 3.2 The £4.073m shown at Appendix ‘A’ represents the cost of the ER/VR exercise for 2014/15 which has been charged to the Contingency Fund on an ‘Invest to Save’ basis. This sum – considerably greater than previous years – reflects the inevitable workforce reductions implicit within the budget proposals for 2014/15 and 2015/16 contained within the ‘Sustainable Swansea- Fit for the Future’ Budget strategy adopted by the Council. These costs are expected to increase in 2016/17 and beyond. As in prior years access to ER/VR requires a maximum payback period of three years for any employee who leaves under the scheme.
- 3.3 In addition to the above, the cost of increases in care home fees for 2014/15 (£500,000), the costs of utilising consultants to bring properties for sale to market more rapidly (£50,000) and the additional costs of the Carbon Reduction Scheme (£193,000) over and above that budgeted

have been met from the fund but have effectively been met through an increase in service budgets and expenditure.

- 3.4 The total met from the fund for 2014/15 is therefore some £4.816m. Compared to the original budget of £5,400,000 this results in an underspend for the year of £584,000 as shown in the outturn summary at appendix 'A'.

4 Schools Expenditure and Reserves Position

- 4.1 The Schools delegated budget for 2014/15 was £138,304,100.
- 4.2 This delegated budget in reality reflects in actual expenditure as shown in the education directorate line of the outturn summary given at appendix 'A', and any variation in expenditure incurred by Schools at a level greater/less than overall delegated budgets will result in a movement in ring-fenced delegated schools reserves.
- 4.3 During 2014/15 Schools expenditure overall was £2,478,650 less than the delegated budget, equating to an underspend of 1.79%.
- 4.4 The effect of this is to add the underspend to Schools reserves.

The following is a summary of overall Schools Reserves since 1st April 2012:

	Balance 1/4/2012	Balance 31/3/2013	Balance 31/3/2014	Balance 31/3/2015	Overall increase over 3 year period (%)
Primary	3,949,381	4,386,436	5,054,274	6,722,267	70.2
Secondary	1,037,662	2,070,208	2,156,573	2,799,364	169.8
Special	134,804	43,287	64,983	232,849	72.7
Total	5,121,847	6,499,931	7,275,830	9,754,480	90.4

- 4.5 Of course the above table is presented to reflect the quantum of schools reserves against each stream and the position within individual schools may vary considerably from the trend shown.
- 4.6 It has to be acknowledged however that the funding settlement for Schools in respect of 2015/16 is challenging and it is expected that the outturn position for 2015/16 will evidence some call on existing reserves.

5. Summary of Outturn Position and Recommendations

- 5.1 Excluding one-of Corporate items the outturn position for 2014/15 largely reflects the forecast position at quarter 3 (Reported to Cabinet in February 2015) i.e. an approximate break even position.
- 5.2 This is the minimum that should be expected in terms of Service Revenue Budgets and, indeed, experience from a number of English

Local Authorities suggests that, where the Council is on a known long term reduction strategy, then a modest underspend should become the norm in the light of advance action being taken to achieve subsequent year savings. However, as stated above, this will only provide some in year flexibility to manage the risks around the timing of the delivery of savings and must not be allowed to delay decisions about savings and the implementation of these.

5.3 The Revenue Budget as set by Council on 18th February 2014 approved the use of General Reserves totalling £2.2m to support the 2014/15 budget. Based on the net Revenue underspend position arising out of the outturn statement, which includes the balance arising from contingency fund activities, it is recommended that:-

5.3.1 The following transfers are made TO earmarked Revenue Reserves as follows:-

- Sums required to support Sustainable Swansea development and facilitate the development of Corporate Council wide initiatives totalling £624,000. This will include for example the funding of the Corporate Financial Strategy team
- Commuted Sums Received £187,000
- Specific Social Services Reserves for Supporting People and Community Equipment store £507,000
- Underspends on 2014/15 Members Environmental Allowance Schemes £55,000
- Crematorium Mercury abatement reserve £71,000
- Commitment to meet City Centre strategy costs £214,000
- Other technical adjustments £59,000

5.3.2 The reduced sum of £667,000 be taken from General reserves to support the 2014/15 Revenue Outturn position.

5.3.3 This would result in a revised outturn summary as highlighted at Appendix 'B' of this report.

5.4 Notwithstanding these proposed transfers, it is a duty of the Section 151 Officer to consider levels of General and earmarked reserves in order to continually monitor their adequacy and projected use. This has to be done in terms of both current known and projected future liabilities.

5.5 To this extent the Section 151 Officer is undertaking a full review of all current earmarked reserves to be reported to a future Cabinet meeting. It is likely, however, that the outcome of this will be a re-categorisation of a number of reserves in order to create a financial resource for what is seen as inevitable and substantial future downsizing costs.

5.6 It is the opinion of the Section 151 Officer at this point that there is no scope within General or earmarked reserves to fund any additional expenditure of the Council beyond that currently approved given the current risks facing the Council in terms of continuing Single status

issues and the uncertainty of future Welsh Government funding streams.

6. Legal Implications

- 6.1 There are no legal implications relating to matters contained within this report.

7. Equalities Implications

- 7.1. There are no equalities implications arising from this report. Equalities implications are identified and addressed by departments via the Equality Impact Assessment process at the time that budgets are approved.

Background papers: None

Appendices: Appendix 'A' Revenue Outturn Summary 2014/15

Appendices: Appendix 'B' Revised Revenue Outturn Summary 2014/15

Revenue Outturn Summary 2014/15**Appendix 'A'****Directorate**

	Revised Budget £'000	Revenue Outturn £'000	Variance £'000	Variance %
Corporate Services	45,893	44,104	-1,789	-3.9
People - Poverty and Prevention	4,965	4,717	-248	-5.0
People - Social Services	105,083	104,678	-405	-0.4
People - Education	161,179	162,905	1,726	1.1
Place	53,042	52,150	-892	-1.7
Net Directorate expenditure	370,162	368,554	-1,608	-0.4
Additional Savings	-2,327		2,327	
Financed from Contingency Fund	4,657	4,073	-584	
Total Service costs	372,492	372,626	134	
Corporate provision for inflation	1,049	0	-1,049	
Corporate items		-776	-776	
<i>Levies:</i>				
Swansea Bay Port Health	94	94	0	
<i>Contributions:</i>				
Combined Fire Authority	11,524	11,524	0	
	385,159	383,469	-1,690	
<i>Capital financing charges</i>				
Principal repayments	14,033	13,436	-597	-4.3
Net interest charges	13,651	13,908	257	1.9
Net Revenue Expenditure	412,843	410,813	-2,030	-0.5
Movement in balances				
General Balances	-2,200	-2200	0	
Earmarked reserves	2,641	5,891	3,250	
Total Budget Requirement	413,284	414,504	1,220	
Discretionary NNDR relief	375	347	-28	-7.5
Total CCS requirement	413,659	414,851	1,192	
Community Council precepts	868	868	0	
Total spending requirement	414,527	415,719	1,192	0.3
Revenue Support Grant	241,788	241,788	0	
NNDR	76,436	76,436	0	
Council Tax	96,303	97,495	1,192	1.2
Total financing	414,527	415,719	1,192	0.3

Revised Revenue Outturn position 2014/15

Appendix 'B'

Directorate

	Revised Budget £'000	Revenue Outturn £'000	Variance £'000
Corporate Services	45,893	44,104	-1,789
People - Poverty and Prevention	4,965	4,717	-248
People - Social Services	105,083	104,678	-405
People - Education	161,179	162,905	1,726
Place	53,042	52,150	-892
Net Directorate expenditure	370,162	368,554	-1,608
Additional Savings	-2,327		2,327
Financed from Contingency Fund	4,657	4,073	-584
Total Service costs	372,492	372,626	134
Corporate provision for inflation	1,049	0	-1,049
Corporate items		-776	-776
<i>Levies:</i>			
Swansea Bay Port Health	94	94	0
<i>Contributions:</i>			
Combined Fire Authority	11,524	11,524	0
	385,159	383,469	-1,690
<i>Capital financing charges</i>			
Principal repayments	14,033	13,436	-597
Net interest charges	13,651	13,908	257
Net Revenue Expenditure	412,843	410,813	-2,030
Movement in balances			
General Balances	-2,200	-667	1,533
Earmarked reserves	2,641	4,358	1,717
Total Budget Requirement	413,284	414,504	1,220
Discretionary NNDR relief	375	347	-28
Total CCS requirement	413,659	414,851	1,192
Community Council precepts	868	868	0
Total spending requirement	414,527	415,719	1,192
Revenue Support Grant	241,788	241,788	0
NNDR	76,436	76,436	0
Council Tax	96,303	97,495	1,192
Total financing	414,527	415,719	1,192