

Report of the Cabinet Member for Finance & Strategy

Cabinet - 21 July 2016

REVENUE FINANCIAL OUTTURN 2015/16

Purpose:	To report on the detailed Revenue financial outturn for 2015/16
Policy Framework:	Sustainable Swansea Budget Plan 2015/16
Reason for Decision:	This report is presented to Cabinet in accordance with Financial Procedure Rules.
Consultation:	Cabinet Members, Corporate Management Team, Legal and Access to Services.
Recommendation:	It is recommended that the comments and variations in this report be noted, and that the proposed reserve transfers detailed in Section 7.3 are approved
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1. Introduction and Context

- 1.1 This report details net expenditure for 2015/16 and highlights variances from the revised budget.
- 1.2 The Revenue Budget for 2015/16 was approved at Council on 24th February 2015. The budget as approved included the following proposals to address a budget deficit of £26.774m

<u>Budget Proposals 2015/16</u>	£'000	£'000
Planned Service Savings	-6,670	
Cabinet decision 10 th February 2015	466	
Sustainable Swansea Additional Proposals	-7,497	
Sustainable Swansea Delivery Programme	-3,000	
Schools Delegated Budget	-4,152	-20,853
Net effect of Council tax base increase and proposed charges		-5,372
Reduction in inflation provision		-1,049
Transfer to Transformation Reserve		1,700
Use of General Reserves		-1,200
Overall resourcing		-26,774

- 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 Sustainable Swansea savings has equally been monitored.
- 1.4 2015/16 marked the second year following the introduction, from 1st April 2014, of the Council's 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. That pay protection has therefore now been substantively exhausted at the end of the year.
- 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. Despite significant inroads made to the numbers of appeals, the appeals process does remain ongoing.
- 1.7 The Council has made substantial continued progress during 2015/16 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 2016/17 revenue budgets going forward. However, costs in respect of successful appeals – currently running at approximately 60% - 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 2015/16, makes commentary on comparison with in year budget monitoring and, where appropriate, details action already taken in setting the 2016/17 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 2015/16 was £2,291,000 less than the approved budget as follows:

	£000's
Net Expenditure on Services per appendix 'A' (including 2015/16 ER/VR costs)	-1,111
Capital charges	-821
One off corporate costs	-126
Other net underspends including Council Tax collection	-233
<u>Overall net underspend</u>	<u>-2,291</u>

- 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
- 2.3 The outturn position is based on the assumption that the budgeted contribution of £1.2m from general reserves for 2015/16 **will not actually be made**. Recommendations in terms of Reserve Movements and Review are made in Section 7 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 **Services and Capital Charges**. Details of the Service underspends are set out in section 2.6 . The underspend in capital finance charges reflects the ongoing low interest environment where it is disadvantageous to the Authority to materially externalise its borrowing requirement when it can utilise internal capital cheaper (by forgoing interest on cash balances) .

The capital programme slippage has also contributed to the capital charge underspend. There is a strategy to monitor interest rates and

average in the borrowing requirement over a period of time but inevitably as the need to fund the capital financing requirement increases so will the capital charges in line with budget. In line with Treasury Management strategy, £20m of the Council's borrowing requirement was externalised during March 2016, taking advantage of preferential rates for project borrowing and, as stated above, an exceptionally low interest scenario. Further borrowing will be externalised where rates, which are monitored on a constant basis, are favourable.

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 2016/17 and, consequently, management action and, in some case, Member decisions, will be required to address the underlying issues.

2.6 The following set out the major service specific variances in 2015-16.

Corporate Services Directorate

	£
Overprovision for CTRS	-906,000
Increased cost of Rent Allowances	100,000
Audit fees	-100,000
Net Employee variance	-1,010,000
Other net variances	194,000
	<u>-1,722,000</u>

Director Comments:-

1. The outturn position is largely consistent with the escalating overall savings position highlighted in the budget monitoring reports for Quarters 1-3 2015/16 and represent some early achievement of known savings requirements for 2016/17.
2. The underspend 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. A significant element of this underspend was forecast during the year and, in setting budget levels for 2016/17 a large element of ongoing saving in this area has been anticipated.
3. 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.

Ongoing discussions are being held with the Council's new external auditors (Wales Audit Office) with a view to establishing whether these savings will re-occur in 2016/17.

People Directorate – Poverty & Prevention

	£
CCTV Service	-104,000
Head of Poverty & Prevention	-101,000
Child Poverty Projects	-100,000
Youth Clubs	-68,000
Youth General	-63,000
Evolve Level 3	-60,000
Healthy Directions	-49,000
Childcare Act Duties	-39,000
Other net variances	-4,000
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	-588,000

Directors Comments:-

Poverty and Prevention

The Poverty and Prevention Service identified a potential overspend at the first quarter due to the Residential and Outdoor Centres, this was addressed in year as managers took swift action to contain this and as a result, a far more positive final figure was achieved due to increased income and vacancy savings across the Service.

The Service relies on 75% Welsh Government Grant funding, managers were able to maximise spending of grants thus creating a greater saving to core budgets.

The CCTV and Community Safety Service had a planned underspend and identified early in the year additional savings in 2017/18 within the MTFP. These areas are now undergoing a commissioning review.

A small amount of budget has been identified as a carry forward for the agreed pilot of the Food Enterprise Project.

There has been no call on the Chief Executives Child Poverty Projects budget in year with additional funds from sponsorship of the High 5 Awards. Overall greater savings has been achieved which have brought the budget to a positive position.

People Directorate – Social Services

	£
Child & Family	
Looked after children	-1,919,000
Legal costs in relation to children	-189,000
Delays in recruitment	-354,000
Therapeutic Savings	-240,000
Wellbeing Services	-355,000
Youth Offending Services	-128,000

Other CFS	-234,000
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Adult Services

Savings not achieved	2,385,000
LD & MH Supported Care Planning	2,172,000
External Residential Care	-1,343,000
Domiciliary Care	227,000
Older Persons Residential and Day Care	194,000
Safeguarding & Wellbeing	-420,000
Disability Services and Transport	-358,000
Supporting People	-478,000
Other net variances throughout Adult Services	-88,000
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	-1,128,000

Directors Comments:-

Social Services

The overall Social Services financial position is characterised by Child and Family Services underspends and unachieved savings targets within Adult Services.

The Child and Family Services position reflects the continued success of the Safe LAC reduction scheme which supports families through solutions that require less local authority support and intervention. 2015/16 also saw the introduction of regional adoption arrangements which have resulted in increased efficiency.

Whilst the Child and Family Services underspend grew throughout 2015/16, it is important to note that even one family with significant support needs can have a substantial adverse effect on financial performance.

Within Adult Services, it became apparent early in the financial year that the majority of substantial savings targets were not achievable. To remedy this; significant efforts were made to control expenditure within the service which resulted in the final overspend being more than £1m less than the first quarter prediction.

Demand remains high in a number of pressure areas, primarily Learning Disability and Mental Health placements and this is reflected in the outturn. A programme of right sizing is underway although this is a substantial piece of work that will take some time to complete.

Many of the unachieved savings relate to Domiciliary Care, which remains an area of pressure whilst improved income and reduced expenditure within External Residential Care partially offset this.

People Directorate – Education

	£
Employment Training	811,000
Out of County/Recoupment/Pupils educated at home	1,150,000
Unachievable savings targets	502,000
Home to School Transport costs	182,000
Targeted support and challenge to schools	175,000
Other SEN pressures	109,000
Reviews/ Savings brought forward	-525,000
Earlier delivery of senior management review/action to recover / reduce staffing costs	-300,000
One off managed savings	-173,000
Other net variances	+16,000
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	1,947,000

Directors Comments:-

Education

Significant service and financial pressures have been consistently identified and reporting during the year, amounting to £3 million.

There has been continuing work, prior to the transfer of Employment Training, to maximise contract income and as far as possible contain spending. However, there remained unavoidable one off costs.

Mitigation of costs in relation to Independent Special School places has created further significant pressure on costs of placements with other Local Authorities and costs of pupils educated at home. Significant pressures have also been faced on SEN transport in relation to statemented pupils but these have been offset in part by savings in other areas of home to school transport.

Whilst challenging savings targets have been achieved, delays, uncertainty and legal challenge has prevented the delivery of some significant and complex proposals, specifically in the areas of home-to-school transport, behaviour review, and free breakfast provision. There have also been increasing demands on the limited funding available for targeted support and challenge of schools and wider SEN cost pressures.

Robust management action has been taken during the year to as far as possible manage and mitigate these pressures through earlier delivery of service and other reviews to recover and reduce costs.

Place Directorate

	£
Planning Applications, Policy & Environment	252,000
Street Cleansing	181,000
Corporate Building and Property Services	-729,000
Grand Theatre	-108,000
Arts	-90,000
City of Culture	-270,000
Housing	-261,000
Pollution & Public Health	-158,000
Registrars	-63,000
Licensing	-61,000
Environmental Health Admin	-52,000
Trading Standards	-89,000
City Centre	-113,000
Improvements Team	-119,000
Car Park Enforcement	-89,000
Car Parks	-276,000
Road Safety	-75,000
School Crossing Patrols	-87,000
Concessionary Fares	-185,000
Bus Station	-82,000
Transport Group	-89,000
Highways	-179,000
Other net variances	-4,000
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	-2,746,000

Director Comments:-

Notwithstanding the ongoing financial challenges, significant progress is being made against the current future savings targets with a number of savings being accrued earlier than planned resulting in an underspend in the 2015/16 budget. In addition a number of areas have generate increased income and proactive budget management have reduced overall spend levels across the directorate.

Some of the key variances are outlined in more detail below:

1. The overspend in planning policy, resulting from appeal costs relating to Park Tawe and LDP production costs, has been partly offset by increased income and reduced costs in the City Centre management.
2. In relation to Corporate Building and property services the overall underspend of £729k is largely as a result of the one off "windfall" rates rebates derived through a proactive invest to save initiative, ,increased rental income from the commercial estate increased fee income due to increased workload and turnover within construction. There is

also an underspend on staffing budgets due to early release of senior staff savings.

- 3 The total underspend for Housing and public protection of £705k is made up of an additional income of £473k mainly due to fee income for Urban renewals, pollution control and public health and saving on staffing of £144k and other small underspends from budget management of £88k.
4. In relation to Culture and Leisure the main variance were resulting from Increased sponsorship income, at a range of facilities including rebates from Brangwyn catering contract, underspends on staffing resulting from vacancy management and early release of staffing savings and underspend on the city of culture. Some of these savings have been offset by spending pressures elsewhere within the service.
5. The overall improved out-turn for Highways and transportation includes a number of increased income lines for fees and charges, including increased parking penalty notices through enforcement and camera car. In addition there are a range of amounts resulting from the early release of savings which will contribute to the 16/17 commissioning target, including staff budgets and process mapping savings. There is a saving of £87k against the budget for school crossing patrols due to the inability to recruit to certain locations and a downturn in concessionary fares budget due to reduced passenger numbers. Forward reductions are being considered for this budget but this will be offset by a £120k reduction in the WG payment for administering the concessionary passes, and there is no budget for replacing concessionary pass cards as they fail.

The other notable variances in Highways and transportation are improved income from departure charges at the quadrant, early release of staffing savings resulting from vacant posts and whilst the highway maintenance budget was overspent this was offset by an over-achievement of income of £152k from the construction activities.

Finally the transfer of cleansing function from Highways to Waste Management has resulted in an imbalance in that area showing an overspend of £181,000.

In moving forward the directorate will be looking align any budget variances and also amend the base budgets to reflect any recurring underspends as part of its overall budget strategy and savings programme.

3. Items met from the Contingency Fund

- 3.1 The Cabinet Report on 24th February 2015 highlighted a number of risks that may need to be met from the Contingency Fund in 2015/16.
- 3.2 The £5,471m shown at Appendix 'A' represents the cost of the ER/VR exercise for 2015/16 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 2015/16 and 2016/17 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, other costs including the cost of increases in care home fees for 2015/16 (£370,000), additional costs of the Carbon Reduction Scheme (£133,000), potential costs as a result of a judicial review regarding School Transport (£172,000) and transfer of elements of Employment Training to Gower College (£150,000) 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 2015/16 is therefore some £6,332,000. Compared to the original budget of £5,400,000 this results in an overspend for the year of £932,000 as shown in the outturn summary at appendix 'A'.
- 3.5 Items charged to the fund represent annual costs which, apart from ER/VR costs, will not re-occur during 2016/17.

4 Schools Expenditure and Reserves Position

- 4.1 The Schools delegated budget for 2015/16 was £135,179,085.
- 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 2015/16 Schools expenditure overall was £205,469 more than the delegated budget, equating to an overspend of 0.15%.
- 4.4 The effect of this is to remove the overspend from Schools reserves.

The following is a summary of overall Schools Reserves since 1st April 2013:

	Balance 31/3/2013	Balance 31/3/2014	Balance 31/3/2015	Balance 31/3/2016	Overall increase over last 3 year period (%)
Primary	4,386,436	5,054,274	6,719,958	7,026,483	60.1
Secondary	2,070,208	2,156,573	2,799,369	2,188,589	5.7
Special	43,287	64,983	232,849	331,635	766.1
Total	6,499,931	7,275,830	9,752,176	9,546,707	46.9

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 quite considerably from the trend shown.

4.6 The above overall movement in Schools Reserves – a net reduction of £207,773 or 2.13% has to be viewed in the context of an overall reduction in Schools funding of £4.152m in 2015/16.

4.6 It has to be acknowledged however that the funding settlement for Schools in respect of 2016/17 is again a challenging one, notwithstanding the additional funding provided under the ministerial funding guarantee because of greater pressures around teachers pay and pensions, and all schools based staff increased employers NI contributions. It is expected that the outturn position for 2016/17 will evidence further calls on existing reserves.

5 Ongoing implications for the 2016-17 budget

5.1 There are ongoing risks from planned savings not achieved from 2015-16 budget which cumulatively impact future years.

5.2 There are ongoing overspend risks arising from the outturn position in the following areas

- Learning Disability and Mental Health Services
- Domiciliary Care
- Older Persons Residential and Day Care
- Out of County/Recoupment/Pupils Educated at Home
- Home to Schools Transport costs
- Targeted support and challenge to schools

5.3 There are ongoing underspend opportunities arising from the outturn position in the following areas

- Additional income achieved, especially in Place based services
- Net Corporate Building and Property Services income
- Possibly in relation to External Audit fees

5.4 There are inherent risks in the current 2016-17 budget around:

- Use of Contingency Fund especially re overall funding of staff ER/VR departures
- Delivery of Review of Terms and Conditions £1m
- Agreeing Stopping Services £2m
- Delivering the Commercialism agenda £2.65m
- Partly offset by likely lower than necessary calls on inflation re the “national living wage” implementation costs on third party contractors

5.5 There are emerging and continuing risks going forward in future years arising from national developments around:

- Redistribution of block government grant for sparsity factors to more rural areas (expected cost to the Council of approximately £1m p.a. from 2017/18)
 - Continued loss of specific grants
 - Triennial revaluation of the pension fund
 - Impact of the apprenticeship levy
- 5.6 We can anticipate therefore that the authority's overall budget position will remain under significant pressure for the foreseeable future.

6. Use of the savings tracker and outturn position

- 6.1 During 2015/16 the Council continued with use of a tracking mechanism in order to monitor progress against the specific savings proposals contained within service and overall budgets proposals.
- 6.2 The detailed final position as shown by the savings tracker for 2015/16 showed an overall achievement of 84% against original plan, and specific details on the outturn position are given at Appendix B
- 6.3 Given the overall outturn position it is clear that additional compensating savings have been made where specific savings have been delayed or have not been achieved. The overall outturn position is consistent with monitoring and projections during the year.

7 Summary of Outturn Position and Recommendations

- 7.1 The outturn position for 2015/16 reflects an improvement on the forecast position at quarter 3 (Reported to Cabinet in February 2016) i.e. an overall underspend.
- 7.2 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 budget 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 as planned.
- 7.3 The Revenue Budget as set by Council on 24th February 2015 approved the use of General Reserves totalling £1.2m to support the 2015/16 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:-
- 7.3.1 The following transfers are made TO earmarked Revenue Reserves as follows:-
- Sums required to support Sustainable Swansea delivery transformation and facilitate the development of Council wide initiatives £1,975,000

- Commuted Sums Received £117,000
- Specific Social Services Reserves for Supporting People £141,000 and Integrated working with Health £933,000.
- Members Environmental Allowance Schemes slippage of £6,000 together with additional funding identified in year £500,000
- Funding set aside to meet costs of Local Government Elections in 2017 £120,000
- Crematorium Mercury abatement reserve £70,000
- Healthy Directions £40,000, Childrens centre £15,000 , Early Language Development £27,000 and Education ICS £124,000

7.3.2 No actual transfer from General reserves to support the 2015/16 Revenue Outturn position.

- 7.4 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.
- 7.5 To this extent the Section 151 Officer is undertaking a further formal review of all current earmarked reserves to be reported to Council in October 2016.
- 7.6 It is the opinion of the Section 151 Officer at this point that there is no scope within General 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, ongoing spending pressures and the uncertainty of future Welsh Government funding streams. The position for future years is further exacerbated by uncertainty arising from the recent decision for the UK to withdraw from the European Union and the current political uncertainty at Westminster. It is likely given the current position that there will again be a delay in this Council receiving the detailed 2017/18 revenue and capital settlement figures.
- 7.7 The position with regard to earmarked reserves will be considered in light of the formal review of all earmarked reserves in due course in October 2016.

8. Legal Implications

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

9. Equality and Engagement Implications

- 9.1. 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 2015/16
Appendix 'B' Summary of initial budget proposals delivered

Revenue Outturn Summary 2015/16

Appendix 'A'

Directorate	Revised Budget	Revenue Outturn	Variance	Variance
	£'000	£'000	£'000	%
Corporate Services	45,894	44,172	-1,722	-3.8
People - Poverty and Prevention	5,391	4,803	-588	-10.9
People - Social Services	104,754	103,626	-1,128	-1.1
People - Education	156,649	158,596	1,947	1.2
Place	52,249	49,503	-2,746	-5.3
Net Directorate expenditure	364,937	360,700	-4,237	-1.2
Additional Savings	-2,560	-366	2,194	
Financed from Contingency Fund	4,539	5,471	932	
Total Service costs	366,916	365,805	-1,111	
Corporate provision for inflation	0	0	0	
Corporate items		-126	-126	
<i>Levies:</i>				
Swansea Bay Port Health	94	93	-1	
<i>Contributions:</i>				
Combined Fire Authority	11,773	11,773	0	
	378,783	377,546	-1,237	
<i>Capital financing charges</i>				
Principal repayments	14,541	14,393	-148	-1.0
Net interest charges	14,357	13,684	-673	-4.7
Net Revenue Expenditure	407,681	405,623	-2,058	-0.5
Movement in balances				
General Balances	-1,200	0	1,200	
Earmarked reserves	1,585	2,921	1,336	
Total Budget Requirement	408,066	408,544	478	
Discretionary NNDR relief	375	391	16	4.3
Total CCS requirement	408,441	408,935	494	
Community Council precepts	910	910	0	
Total spending requirement	409,351	409,845	494	0.1
Revenue Support Grant	237,542	237,542	0	
NNDR	70,092	70,092	0	
Council Tax	101,717	102,211	494	0.5
Total financing	409,351	409,845	494	0.1

Summary of savings delivered

Appendix 'B'

See attached