

Report of the Cabinet Member for Finance and Strategy

Cabinet - 17 November 2016

REVENUE AND CAPITAL BUDGET 2nd QUARTER REPORT 2016/17

Purpose:	To report on financial position of the Council re 2016/17 revenue and capital budgets, including the delivery of budget savings.
Policy Framework:	Budget 2016/17 Sustainable Swansea –fit for the future
Reason for Decision:	To note any significant variations from the agreed budget 2016/17 and savings plan and the actions planned to achieve a balanced budget.
Consultation:	Cabinet Members, Corporate management Team, Legal Services and Corporate Equalities Unit.
Recommendation:	It is recommended that the comments and variations in this report, and the actions in hand to address these, are noted.
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1. Background and Introduction

1.1 This report details forecast variations from the agreed budget for 2016/17, including the latest assessment of the delivery of savings.

1.2 In respect of Revenue Budgets, this report provides a consolidated forecast which combines:

- projected variations (mainly shortfalls) in relation to budget savings agreed by Council in February and March 2016
- Variations arising from other service pressures not directly linked to specific savings plans (e.g. increased demand)

1.3 The report includes comments from Directors in relation to the variations highlighted and the action that is in hand or proposed as appropriate.

2. Revenue Outturn Forecast Based on September 2016 Position

2.1 Appendix 'A' to this report details the approved Revenue Budget for 2016/17 and the forecast variation at this time.

2.2 Other than projected variations on Directorate expenditure, it is too early to forecast variations that may arise on significant Corporate items including the level of Council Tax collection (and potential surplus) – it is assumed at the current time that this remains largely as per the approved budget.

2.3 The overall Directorate position is summarised below:-

DIRECTORATE

	FORECAST VARIATION 2016/17 £000	SAVINGS VARIATION 2016/17 £000	OTHER VARIATION 2016/17 £000
CORPORATE SERVICES	1,525	1,815	-290
PEOPLE - POVERTY AND PREVENTION	-200	0	-200
PEOPLE - SOCIAL SERVICES	3,382	1,567	1,815
PEOPLE - EDUCATION	1,677	620	1,057
PLACE	-1,459	528	-1,987
ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED	2,000	2,000	0
<i>NET DIRECTORATE EXPENDITURE</i>	6,925	6,530	395

2.4 Directors' comments on the above variations are shown at appendix 'B' :-

2.5 The position on cross cutting savings is dependent on savings being identified and, more importantly, agreement to reflect those savings within the detail (not just the place holding target amounts) of Directorate Budgets for 2016/17. It is clearly essential that work continues in this area if the forecast budget outturn is to be improved. Within the *Sustainable Swansea* Delivery Programme, work is underway to develop service delivery plans that will include all savings requirements across all strands.

2.6 The above potential overspend is a significant risk and needs to be addressed on a whole Council basis as it is unlikely at the present time that alternative fully compensating savings will be deliverable within budgets. Many of the overspend items follow on from the outturn position for 2015/16 and need to be considered in the light of the forecast savings going forward within the Medium Term Financial Plan,

and the cumulative effect of non-achievement savings on the MTFP deficit going forward.

2.7 Corporate Management Team has strengthened the current arrangements for budget monitoring with the aims of:-

- quicker reporting;
- focus on corrective action;
- increased control;
- and a specific focus on the large scale savings required and built into the 16/17 budget.

And this is already reducing the overall reported overspend, albeit the position remains challenging even at that lower level of overspend.

2.8 As set out in the first quarter report, offsetting opportunities do continue exist to ameliorate some of the identified service pressures, totalling at least £2.4m, as follows.

- To date £1.3m has been allocated against the combined £3m inflation provision to cover elements of care home fees and potential living wage cost increases in relation to suppliers. Further bids in due course are envisaged in relation to Home to School transport and recoument/out of county placements. It is assumed that these will total no more than £0.3m leaving a tentative £1.4m , on a one off basis, to offset 2016-17 spending pressures.
- With regard to the National Living Wage it is clear that the financial effects to 2020-21 will grow into the several millions more than budgeted and it is right to keep in mind the pressures to come.
- In setting the budget for 2016-17 it was anticipated that several specific grants could be reduced as part of the overall funding package from Welsh Government and a £1.7m reserve established to cushion the immediate impact. In the immediate aftermath of the “Brexit” result of the EU referendum, there are ongoing future uncertainties over long term wider grant funding . However in the immediate term identified “bids” against the reserve were modest, totalling just over £350,000 (Waste direct grant losses £0.304m and Child and Family £0.050m re Youth Justice/Early Intervention). Anticipating some further bids in year to come, another provisional £1m, again one off only, is identified as an offsetting underspend.

2.9 Conversely, it should be noted that on basis of bids already committed to the Council’s existing Transformation Fund reserve this is wholly committed and cannot therefore be used to fund further transformative work unless and until monies advanced for existing plans start to crystallise additional and significant savings to pay back to the fund, not merely help unlock already planned budgeted savings.

3. Contingency Fund Provision for 2016/17

3.1 There is no carry forward of previous years underspends into the contingency fund for 2016/17. As such the contingency fund is set at the £5.4m contribution set out in the budget report approved by Council on 25th February 2016.

3.2 The estimated calls on the contingency fund at present are:-

Contingency Fund 2016/17	Prediction
	2016/17 (£m)
Contribution for year	5.400
ERVR Scheme <i>minimum</i>	-4.500
City Region bid	-0.050
Housing Options(reinstated budget saving)	-0.045
Employment Training residual costs	-0.300
Carbon Reduction Scheme (provisional)	-0.095
Streetscene enhancements (pot holes)	-0.150
Swans in Premier League (was 100 days saving)	-0.055
Wales Football Fanzone Singleton Park	-0.025
Increased legal costs re DOLs (per CMT)	-0.039
Balance 31st March	0.141

There are residual wind down costs estimated at £0.3m associated with the transfer of the core Employment Training provision to another provider. The transfer ended up occurring after 31 March 2016 so there are residual one off costs relating to 2016-17 for which there is no core budget provision in 2016-17. Historically there have also been additional costs arising from the actual costs of the Carbon Reduction scheme. A number of smaller value items have also recently been agreed to be funded from the Contingency Fund and these are also shown above.

Any departures under ER/VR in 2016-17 will again be charged to the contingency fund as a one off cost to release future revenue savings. It would be prudent given the experience in 2015-16 and the accelerated budgetary savings pressures likely to bear upon the authority to assume the call on the contingency for the purposes of funding ER/VRs to be at least £4.5m, even at this early stage in the year.

In addition the following call has already been potentially made on the Restructuring Reserve.

<i>Additional sum to meet the cost of outstanding equal pay claims and funding of staff to 31st March 2017.</i>	£2.5m
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3.3 The scale of potential overspends for 2016/17 are significantly in excess of any potential minor residual sum, if any, available from contingency fund to meet the shortfall, and the current indication is that there needs to be continued urgent and decisive action to pursue additional savings across the Council if an overall balanced budget is to be anywhere near achieved.

3.4 The action being taken includes working through existing plans on an accelerated delivery basis :

- Management Review: ongoing comprehensive review of the management structure across the Council and future requirements given the Council's priorities, future challenges and the changing nature of the role of managers
- Commercialism through third party Procurement Savings and Income Generation: review of further options to increase income from fees and charges, trading etc, in addition to the targets already set for 2016/17

3.5 There is also a need to review existing savings plans around:

- Reducing the Pay Bill: review of options to reduce employee costs across the Council as part of our overall future workforce strategy (subject to trade union consultation at the appropriate time)
- Progressing Reviewing and Stopping Services

But is also necessary to be realistic given implementation times for these elements of the budget plan and an inevitability of needing to look at all options in the round given the pending local government finance settlement. It is therefore likely any work that continues on these items will be around cementing future delivery of savings, not in year savings, and it is this deferral that drives the bulk of the reported net overspend position at the end of the second quarter.

3.6 It should be noted that at this time, although the Council continues to pursue a number of VAT related claims, there is NO notification of substantial windfalls from VAT refunds or any other external source in the current year.

4. Revenue Budget Summary

4.1 The position reported above reflects the best known current position, at the interim half year stage, which introduces a higher degree of risk in the estimates necessarily made compared to the equivalent, later second quarter report last year. A net £6.9m of shortfall in revenue budgets, including the £2m wider stopping services ask, offset by a maximum, one off, £2.4m of identified additional savings.

4.2 This leaves a forecast overall £4.5m overspend forecast for the year at the end of the second quarter, assuming the debt and interest charges are rescheduled as forecast.

4.3 Corporate Management Team have reinforced the expectation that overall net expenditure must be contained within the limits of the current year budget as set by Council.

4.4 As previously mentioned, it is too early to provide an accurate forecast as to the potential outturn on Corporate items such as Council Tax collection (and any surplus

or deficit) which is in itself potentially affected by the effects of welfare reform measures, but offset by an increasing tax base.

- 4.5 The overall judgement at this point is that there is a continued need to identify additional budget savings across all Council Services if a balanced outturn for 2016/17, which can be sustained going forward, is to be achieved. In forming this view it is noted that a similar, but smaller second quarter overspend position was forecast at a later stage last year, that action was subsequently taken in year to address the gap entirely last year, indeed achieving a slight overall under spend, albeit predominantly on a one off basis, and that nevertheless there are ongoing over spend pressures in Social Services and Education.
- 4.6 Furthermore Social Services are developing a recovery plan to seek to address a significant element of their forecast overspending. Consequently there is a degree of confidence that further inroads can be made into the forecast overspend position by ongoing management and member action.
- 4.7 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis. Should there be no improvement in the overall forecast by the formal end of quarter 2 it may be the case that additional measures will have to be imposed in order to move closer to a balanced budget for 2016/17.
- 4.8 In addition it should be noted that a number of technical virements between budget headings have been agreed by the S151 officer in year to effect the implementation of previously agreed outcomes from commissioning reviews and to assist with practical deliver of cross cutting savings previously budgeted for as lump sums.

5. Capital Budget

5.1 Expenditure to 30 September 2016 is £35.019 million, summarised as follows:

Directorate	Budget 2016/17	Actual to 30/9/16	% spend
Corporate Services	2,467	14	0.6%
People	24,835	3,952	15.9%
Place (General Fund)	47,243	10,776	22.8%
Place (HRA)	60,771	20,277	33.4%
Total	135,316	35,019	25.9%

Capital budgets for 2016/17 and onwards are currently being reviewed and re-profiled which will have an impact on the budgets noted above.

Expenditure on major schemes is detailed in Appendix F.

6. Legal Issues

6.1 There are no legal issues contained within this report.

7. Equality issues

7.1 The Revenue budget of the Council was approved following extensive Equality Impact Assessments being undertaken throughout the Budget setting process. It is essential where service levels are affected by changes to the Revenue Budgets (including savings options) that adequate consideration is given to the equality impact of such decisions with mitigating actions applied where possible to avoid any disproportionate effects on members of protected groups.

Background papers: - None

Appendices: Appendix A – Revenue Budget forecast 2016/17
Appendix B – Directors comments on variances
Appendix C – Commentary on Savings Tracker
Appendix D – Savings tracker chart
Appendix E – Savings tracker summary
Appendix F - Expenditure on major Capital Schemes