

Report of the Cabinet Member for Finance and Delivery

Cabinet - 9 February 2017

REVENUE AND CAPITAL BUDGET 3rd 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 December 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, there are other variations that can arise on corporate items and assumed savings on capital financing items have now been explicitly included in this third quarter forecast. It is still too early to forecast any variations that may arise on other items including the level of Council Tax collection (and potential surplus) which will be declared at outturn.

2.3 The overall Directorate position is summarised below:-

<u>DIRECTORATE</u>	FORECAST VARIATION 2016/17 £000	SAVINGS VARIATION 2016/17 £000	OTHER VARIATION 2016/17 £000
CORPORATE SERVICES	1,665	1,880	-215
PEOPLE - POVERTY AND PREVENTION	-450	0	-450
PEOPLE - SOCIAL SERVICES	2,678	1,039	1,639
PEOPLE - EDUCATION	1,677	620	1,057
PLACE	-1,991	535	-2,526
ADDITIONAL SAVINGS STRANDS - TO BE ALLOCATED	1,400	1,400	0
<u>NET DIRECTORATE EXPENDITURE</u>	4,979	5,474	-495

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 service overspend is a significant risk and needs to be addressed (as part of the 2017-18 budget setting) on a whole Council basis going forward. 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 £1.6m has been allocated against the combined £3m inflation provision to cover elements of care home fees , potential living wage cost increases in relation to suppliers ,Home to School transport and recoument/out of county placements. It is assumed that there will be no more calls on this provision 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>	-4.434
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
City Centre Regeneration	-0.207
Balance 31st March	0.000

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. Costs on interim staffing arrangements to support the City Centre Regeneration project together with 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 £4.4m, i.e. the balance of the contingency fund .

In addition at the end of the second quarter an identified call on the restructuring reserve of approximately £2.5m was identified in respect of the additional costs of “back pay” arising from the equal pay and job evaluation process. There is currently a mix of costs charged to services and centrally. The Section 151 officer has determined that it would be more appropriate to fund these additional costs centrally, rather than from within services where they would appear otherwise as part of the service outturn. Whilst final figures for 2016/17 will not be known until all the processes are complete and payments made in the current financial year it is recommended that a further £2m from the restructuring reserve is utilised to fund the costs centrally.

<i>Additional sum to meet the cost of outstanding equal pay claims and funding of staff to 31st March 2017.</i>	£4.5m
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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 third quarter stage, which indicates a higher degree of risk of eventual overspend in the year based on the forecast estimates when compared to the equivalent, third quarter report last year. A net £4.9m of shortfall in revenue budgets, including the £1.4m wider stopping services ask, offset by a maximum, one off, £2.4m of identified additional savings.

4.2 This leaves a forecast overall £0.7m 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 Capital Financing Charges are projected to be approximately £1.9m underspent. Principal repayment savings have been made due to scheme slippage and the beneficial effect of re-profiling the amortisation periods for the debt in line with the actual useful lives of the assets, whilst the interest burden has been reduced due to the use of alternative sources of funding e.g. capital receipts and scheme slippage.
- 4.5 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.
- 4.6 The overall judgement at this point is that there is a continued need to identify some additional budget savings across all Council Services if a balanced outturn for 2016/17, which can be sustained going forward, is to be achieved. This is especially true given that the majority of the ongoing service over spending is being offset by action taken on corporate items and a significant one of use of the restructuring reserve (£4.5m).
- 4.7 Furthermore Social Services have developed a recovery plan to seek to address a significant element of their current 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 and that this can be carried forward into 2017-18.
- 4.8 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis. Similarly monitoring will continue to be reported to the Budget Performance Review Group of officers and members. This will continue to help deliver and enable early intervention and action to be taken as to move closer still to a balanced budget for 2016/17.
- 4.9 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 31 December 2016 is £62.389 million, summarised as follows:

Directorate	Budget 2016/17	Actual to 31/12/16	% spend
Corporate Services	1,616	50	3.1%
People	15,139	7,212	47.6%
Place (General Fund)	42,909	19,428	45.3%
Place (HRA)	60,771	35,699	58.7%
Total	120,435	62,389	51.8%

The spend for the quarter is higher than the same period in 2015/16, when spend was 46.5% of budget.

The HRA budget is currently overstated and the anticipated delivery for 2016/17 is being reviewed. Once the review of schemes is complete the budgets will be amended.

Expenditure on major schemes is detailed in Appendix F.

6. HRA Projected Revenue Outturn Summary

- 6.1 There is a forecast underspend on HRA Revenue management and maintenance budgets of £0.045m which is comprised of reductions in premises costs (£0.1m), underspends on transport costs (£0.035m), underspends on supplies & services (£0.06m) and a reduction in revenue repairs (£0.150m). These underspends are offset by an overspend in employee costs (£0.250m) due to lower than anticipated vacancies along with Pay & Grading back pay and redundancy costs for some staff along with a reduction in income (£0.05m) due to voids created by the kitchen and bathroom replacement programme.
- 6.2 The revenue contribution to the 2016/7 Capital Programme has increased by £1.8m as a result of higher than anticipated balances carried forward and a reduction in the borrowing requirement. This has been partially offset by lower borrowing costs of £0.83m. As a result the forecast for the balances carried forward has reduced to £8.5m.

7. Legal Issues

- 7.1 There are no legal issues contained within this report.

8. Equality issues

- 8.1 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