

Report of the Section 151 Officer

Cabinet - 20 July 2017

REVENUE FINANCIAL OUTTURN 2016/17

Purpose:	To report on the detailed Revenue financial outturn for 2016/17
Policy Framework:	Sustainable Swansea Budget Plan 2016/17
Consultation:	Cabinet Members, Corporate Management Team, 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 7.3 are approved
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1. Introduction and Context

- 1.1 This report details net expenditure for 2016/17 and highlights variances from the revised budget.
- 1.2 The Revenue Budget for 2016/17 was approved at Council on 25th February 2016. The budget as approved included the following proposals to address a budget deficit of £21.011m

<u>Budget Proposals 2016/17</u>	£'000	£'000
Planned Service Savings	-10,221	
Net reduction in previously funded 100 days money	-230	
Cabinet decision 15 th February 2016 additional spending/removal of savings	904	
Sustainable Swansea additional savings proposals	-7,419	
		-16,966
Net effect of Council Tax base increase and increased charge		-4,026
Increase in Fire Authority Levy		-19
<u>Overall resourcing</u>		<u>-21,011</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 Sustainable Swansea savings has equally been monitored.
- 1.4 2016/17 marked the third 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 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 2016/17 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 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 2016/17, makes commentary on comparison with in year budget monitoring and, where appropriate, details action already taken in setting the 2017/18 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 updated 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 2016/17 was £3,198,000 less than the revised budget as follows:

	£000's
Net Expenditure on Services per appendix 'A' (including 2016/17 ER/VR costs) –overspend	3,919
Reduced capital charges	-2,726
Reduced call on Inflation provision	-1,400
One off corporate costs/income	-2,284
Other net underspends including Council Tax collection	-707
<u>Overall net underspend</u>	<u>-3,198</u>

- 2.2 As highlighted in the Third Quarter Budget Monitoring report (February 2017) the Section 151 Officer determined that any additional costs of Job Evaluation, including Back Pay , over and above the remaining provision, would be met from the Restructuring Reserve and funded corporately and not within the service areas . The amount highlighted in the Third Quarter report was a potential call on the Restructuring Reserve of £4.5m. The final amount actually required from the Reserve was £2.82m with the un-required balance returned to the reserve at the year end. The remainder of the costs in 2016/17 for Job Evaluation and Back Pay were met from the existing Job Evaluation provision which as a result has now been fully utilised.
- 2.3 Details of net expenditure variations are given in Section 2.5 and onwards below. The corporate costs net income figure primarily relates to additional income received with regard to a specific relief for National Domestic Rates together with the amount not required from the Restructuring Reserve transfer as noted in 2.2 above.

- 2.4 Recommendations in terms of Reserve Movements and Review as a result of the final outturn position as set out in Section 2.1 are made in Section 7 of this report.
- 2.5 Members will see from the table at 2.1 above that the net overall underspend at year end is largely the result of underspend arising on **Capital Charges**. The material element of the underspend has arisen following a review of the appropriate periods over which certain debt can be amortised, this has resulted in a reduced principal repayment provision charge.
- 2.6 An element of 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. Further borrowing will be externalised where rates, which are monitored on a constant basis, are favourable.
- 2.7 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 2017/18 and, consequently, management action and, in some case, Member decisions, will be required to address the underlying issues.
- 2.8 The following set out the major service specific variances in 2016-17.

Corporate Services Directorate

	£
Overprovision for Council Tax Reduction Scheme costs	-220,000
Reduced cost of Rent Allowances	-140,000
Reduced External Audit fees	-108,000
Net employee costs variance	-785,000
ICT - Supplies and Services under spends	-715,000
Shortfall in Sustainable Swansea savings target	1,448,000
Other net variances	173,000
	<u>-347,000</u>

Director Comments:-

1. The outturn position is somewhat contrary to that predicted in the budget monitoring reports for Quarters 1-3 2016/17. Whilst the shortfall in the target attributable to Sustainable Swansea has remained consistent, a large number of savings have emerged in the final quarter to bring the Directorate from a sizeable projected overspend to a small underspend. In mitigation, some of the reasons for this could not have been foreseen.
2. The overprovision for CTRS was brought about by a significant drop in caseload figures from November hence, whilst the position of Rent Allowances is traditionally difficult to ascertain until year end.

3. The underspend on audit fees, whilst predicted, 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.
4. Ongoing discussions are being held with the Council’s external auditors (Wales Audit Office) with a view to establishing whether these savings will re-occur in 2017/18
5. The savings attributable to employees continued to gather pace particularly in the final quarter when surety of vacant posts was confirmed in the wake of further uptake of the ER/VR offer. A certain element of these savings have already been incorporated into the 17/18 budget setting process
6. Finally, and significantly, throughout the year the Directorate faced a potential £1.5m liability around the audit of ICT licences. An appropriate expenditure freeze was put in place to lessen the financial risk. As it transpired, the liability was ultimately and successfully negotiated downwards to a vastly reduced level with consequential resultant savings able to be reported through expenditure already foregone to mitigate the overspend risk.

People Directorate – Poverty & Prevention

	£
Child Poverty Projects	-70,000
Young Peoples Services	-126,000
Early Intervention Service	-18,000
Community Safety	-17,000
Partnership, Performance and Commissioning	-48,000
Tackling Poverty Service	-119,000
	<u>-398,000</u>

Directors Comments:-

Poverty and Prevention

The Poverty and Prevention Service area budget relies on 75% Welsh Government Grant funding and the principle adopted by the service is always to maximise spending of grants, which in turn creates a greater saving to core budgets.

In 16/17 the service area has seen a number of changes and a budget strategy has been put in place to ensure that all grants are fully utilised and core spend is aligned to our priorities.

The variances in budget lines explanation and action are detailed below:

Child & Poverty Projects: This budget is in place to support Child Poverty Projects as need arises. Grant funds have been utilised fully in replace of core spend in this area, therefore there has been no significant call on this budget in 16/17. The reduced spend reflect the success in additional sponsorship monies for the High Five awards, along with improved management of external funding.

Young People's Services: Savings identified in year through delays in staff recruitment due to implementation of Youth Club commissioning review, only now seeing full effects of implementation of Outdoor Centres commissioning review. Also there has been a delay in recruitment due to redeployment timings in order to mitigate impact of Communities First withdrawal in 17/18 and maximisation of Youth Strategy Grant, part-year implementation and movement of the NEETS service.

Early Intervention Service: All WG Grant have been maximised in this area for 16/17, therefore realised a small underspend on core funds.

Community Safety: Planned reductions in budget spend through the implementation of the CCTV and Community Safety Commissioning Reviews have resulted in a small underspend in this area.

Tackling Poverty Service: The savings in this area are as a result of the full year effect on staffing budgets due to no recruitment to the post of service manager. The WG Communities First Grant has been maximisation and due to the announcement of the future CF Grant in no backfill of posts has been put in place in order to mitigate impact of Communities First grant withdrawal in 17/18.

Partnership, Performance and Commissioning: The underspend in this area reflects funds that have been allocated in 16/17 but will not be realised until 17/18, mainly 28K allocated via the Community Action Transformation Fund and 20K allocated via the Prevention Fund.

People Directorate – Social Services

	£
Child & Family	
Independent Placements	177,000
Youth Offending Services	-170,000
Other CFS	37,000
Adult Services	
LD & MH Supported Care Planning	1,687,000
Internal Staffing and Services	-1,686,000
External Residential Care	-106,000
Domiciliary Care	976,000
Third Party Spend	38,000
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	953,000

Directors Comments:-

Social Services

The Child and Family Services position includes the allocation of £2.25m of Sustainable Swansea savings targets. That the department was able to come so close to a balanced position whilst reducing its budget so significantly reflects the continued success of the Safe LAC reduction scheme. It is critical to the Department's future financial performance that the success of this scheme is maintained.

Within Adult Services, first quarter budget monitoring predicted a substantial overspend. To alleviate this, substantial efforts were made to reduce expenditure whilst maximising income across all areas. Additionally, a significant reorganisation of budgets occurred that allocated additional resource to areas of pressure.

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 continues. Savings targets, increases to minimum wage and the effect of cases expected through transition will mean that this will remain an area of pressure in 2017/18.

The internal staffing and savings figure is indicative of efforts that have been made to reduce expenditure on staffing through ERVR arrangements, tight vacancy management, and the ability of grant income to offset such spend.

Unachieved savings were a substantial cause of the Domiciliary Care overspend and again this is an area where increases to Living Wage are most keenly felt. Reviews of care packages are ongoing and efforts are being made to control demand.

People Directorate – Education

	£
Shortfalls in originally planned savings targets	620,000
Out of County/Recoupment costs	900,000
Behaviour Review	408,000
Home To School Transport	325,000
Other non-delegated schools cost pressures	268,000
One To One Support	480,000
Retrospective additional rates cost re: new school build	483,000
Managed Savings – to part mitigate over spends	-302,000
Managed Savings - one off – to mitigate over spends	-670,000
Bringing forward savings targets (EMAU, Music Service) – to part mitigate over spends	-83,000
Net additional variances across Education	100,000
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	2,529,000

Directors Comments:-

Education

Significant service and financial pressures have been consistently identified and reported during the year approaching £3 million. Further issues have only become apparent at the year end, specifically retrospective additional rates in relation to a new school build revaluation, a late creditor in relation to Home to School Transport (largely Special Schools), and pressures on the 'one to one' budget for Special Schools and Specialist Teaching Facilities.

Mitigation of costs in relation to Independent Special School Places has created further significant pressure on the cost of placement with other Local Authorities. Significant pressures have also been faced on SEN transport in relation to statemented pupils. These inherently volatile and demand led pressures have been recognised in the approved budget for 2017/18.

Whilst challenging savings targets have been achieved, delays, uncertainty and challenge has prevented the delivery of some significant and complex proposals, particularly in relation to the EOTAS review. Again these have been reflected in the approved budget for 2017/18 but work continues to deliver the full required savings over the period of the Medium Term Financial Plan. There have also been increasing pressures on areas such as maternity and schools at risk, partially offset by one-off management action.

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

	£
Wales National Pool	117,000
Libraries	-191,000
Housing	-277,000
Cremations	-153,000
Pollution & Public Health	-146,000
Building Regulations	-60,000
Planning Applications, Policy & Environment	-127,000
City Centre	-337,000
Improvements Team	-128,000
Civil Parking Enforcement	-228,000
Car Parks	-80,000
Park & Ride	-154,000
Bus Station	-184,000
Transport Support	-166,000
School Crossing Patrols	-75,000
Central Transport Unit	150,000
CB&PS - Employee underspend	-147,000

CB&PS - Surplus Income, Rates Rebates & Rental Income	-757,000
CB& PS - Premises and Supplies & Services underspend	-136,000
Other net variances	-221,000
	<u>-3,300,000</u>

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 2016/17 budget. In addition a number of areas have generated increased income and proactive budget management have reduced overall spend levels across the directorate. This will assist the directorate in achieving a balanced budget in 2017/18.

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

1. Wales National Pool - £117k resulting from contractual obligation costs.
2. Libraries - £191k underspend due to staff vacancies/premises/supplies & services costs offset against a shortfall on income.
3. Housing - £277k underspend due to grant funding in Housing Options and surplus income in Neighbourhood Renewal Area & Urban Renewals.
4. Cremations - £153k underspend due to surplus income.
5. Pollution & Public Health - £127k underspend due to employee underspend and surplus income.
6. Building Regulations - £60k underspend due to surplus income.
7. Planning Applications, Policy & Environment - £127k underspend due to employee and supplies & services underspends and surplus income.
8. City Centre - £337k underspend due to grant and rental income to be transferred to earmarked reserve and staff underspend due to delayed recruitment against increased budget which has now been resolved.
9. Improvements Team - £128k underspend due to early achievement of staff saving and surplus income.
10. Civil Parking Enforcement - £228k underspend due to increased income.
11. Car Parking - £80k underspend due to surplus income.
12. Park & Ride - £154k underspend due to the closure of Fforestfach Park & Ride site in year.
13. Bus Station - £184k underspend due to staff and premises underspends.

14. Transport Support - £166k underspend due to surplus income and late implementation of community minibus.
15. School Crossing Patrols - £75k underspend due to inability to recruit staff.
16. Central Transport Unit - £150k overspends due to ageing fleet and delayed savings linked to depot review.
17. CB&PS - £147k staff underspend.
- 18 CB&PS - £757k underspend due to surplus commercial income, rates rebates and rental income.
19. CB&PS - £136k underspend due to premises and supplies & services.
20. Finally, £221k underspends related to other net variances.

In moving forward the directorate will be looking to 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 25th February 2016 highlighted a number of risks that may need to be met from the Contingency Fund in 2016/17.
- 3.2 The £7.570m shown at Appendix 'A' represents the cost of the ER/VR exercise for 2016/17 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 2016/17 and 2017/18 contained within the 'Sustainable Swansea- Fit for the Future' Budget strategy adopted by the Council. These costs include the additional costs of increasing the redundancy element to a maximum of 45 weeks from 30 weeks. As in prior years access to ER/VR requires a maximum payback period of three years for an employee who leaves under the scheme.
- 3.3 In addition to the above, other costs including transitional costs of elements of Employment Training transfer to Gower College (£300,000), City Centre regeneration and City Deal bid (£257,000), Streetscene enhancements (£150,000), additional costs of the Carbon Reduction scheme (£95,000), additional legal staffing costs to deal with Deprivation of Liberty Safeguards pressures (£39,000) , grants to the independent sector (£45,000) and additional costs of Special Events in screening of Wales progress in European football championships (£25,000) . In total £912,000.
- 3.4 The total met from the fund for 2016/17 is therefore some £8,482,000. Compared to the original budget of £5,400,000 this results in an overspend for the year of £3,082,000 as shown in the outturn summary at appendix 'A'.

3.5 Items charged to the fund represent one off costs which, apart from ER/VR costs, will not re-occur during 2017/18.

4 Schools Expenditure and Reserves Position

4.1 The Schools delegated budget for 2016/17 was £138,874,085.

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 2016/17 Schools expenditure overall was £1,937,414 more than the delegated budget, equating to an overspend of 1.39%.

4.4 This overspend is mitigated by being drawn down from schools own reserves.

The following is a summary of overall Schools Reserves since 1st April 2014:

	Balance 31/3/2014	Balance 31/3/2015	Balance 31/3/2016	Balance 31/3/2017	Overall increase over last 3 year period (%)
Primary	5,054,274	6,719,958	7,026,483	5,433,323	7.5
Secondary	2,156,573	2,799,369	2,188,589	1,687,157	-21.8
Special	64,983	232,849	331,635	454,287	699.1
Total	7,275,830	9,752,176	9,546,707	7,574,767	39.5

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 £1,971,940 or 20.6% in year has to be viewed in the context of an overall increase in Schools funding of £3.695m in 2016/17 .

4.6 It is expected that the outturn position for 2017/18 for schools will evidence further calls on existing reserves.

5 Ongoing implications for the 2017-18 budget

5.1 There are ongoing risks from planned savings not achieved from 2016-17 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.
- Home to Schools Transport costs.

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 2017-18 budget around:

- Use of Contingency Fund especially re the overall funding of staff ER/VR departures on an enhanced basis
- Sustainable Swansea workstream savings currently included within Corporate Services of £2.87m
- Ongoing costs relating to Single Status appeals.
- Impact of Apprenticeship Levy
- No specific central provision for inflationary costs.

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

- Redistribution of block government grant (especially re sparsity factors)
- Continued loss of specific grants
- Increased costs from the triennial revaluation of the pension fund

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 2016/17 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 2016/17 showed an overall achievement of 97% after taking into account a number of agreed large scale mitigations reported and agreed at Cabinet in year - a departure from previous reporting conventions (74% 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.

7 Summary of Outturn Position and Recommendations

- 7.1 The outturn position for 2016/17 reflects an improvement on the forecast position at quarter 3 (Reported to Cabinet in February 2017) 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 25th February 2016 approved the use of Earmarked Reserves to support the 2016/17 budget. Based on the net Revenue underspend position arising out of the outturn statement it is recommended that:-
- 7.3.1 The following transfers are made TO earmarked Revenue Reserves as follows:-
- Commuted Sums Received £165,000
 - Crematorium Mercury abatement reserve £70,000
 - Loss of Specific Grant reserve £1,346,000
 - City of Culture £200,000 , LDP examination costs £100,000, Tir John gas engines £160,000 , Vibrant and viable City Centre £161,000 , 3 G pitches £60,000.
- 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 the Autumn of 2017.
- 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.

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 2016/17

Appendix 'B' Summary of initial budget proposals delivered

Revenue Outturn Summary 2016/17**Appendix 'A'****Directorate**

	Revised Budget £'000	Revenue Outturn £'000	Variance £'000	Variance %
Corporate Services	47,931	47,584	-347	-0.7
People - Poverty and Prevention	6,118	5,720	-398	-6.5
People - Social Services	104,688	105,641	953	0.9
People - Education	159,034	161,563	2,529	1.6
Place	52,857	49,557	-3,300	-6.2
Net Directorate expenditure	370,628	370,065	-563	-0.2
Additional Savings	-1,400		1,400	
Financed from Contingency Fund	4,488	7,570	3,082	
Total Service costs	373,716	377,635	3,919	
Corporate provision for inflation	1,400	0	-1,400	
Corporate items		-2,284	-2,284	
<i>Levies:</i>				
Swansea Bay Port Health	93	93	0	
<i>Contributions:</i>				
Combined Fire Authority	11,912	11,912	0	
	387,121	387,356	235	
<i>Capital financing charges</i>				
Principal repayments	14,916	12,984	-1,932	-13.0
Net interest charges	14,732	13,938	-794	-5.4
Net Revenue Expenditure	416,769	414,278	-2,491	-0.6
Movement in balances				
General Balances	0	0	0	
Earmarked reserves	-4,544	-1,346	3,198	
Total Budget Requirement	412,225	412,932	707	
Discretionary NNDR relief	375	363	-12	-3.2
Total CCS requirement	412,600	413,295	695	
Community Council precepts	967	967	0	
Total spending requirement	413,567	414,262	695	0.2
Revenue Support Grant	234,543	234,543	0	
NNDR	73,224	73,224	0	
Council Tax	105,800	106,495	695	0.7
Total financing	413,567	414,262	695	0.2