

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE:

27 June 2016

FINANCIAL UPDATE

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.1

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for Governance, Risk & Control and also Financial Reporting. This report allows the Committee to be updated with reference to the above.
2. This report has been prepared to provide the Audit Committee with an update on the Council's final outturn position for 2015/16 and to outline the initial work being undertaken in relation to budget preparation for 2017/18.

Background

3. The Outturn position for 2015/16 was reported to the Cabinet Meeting on the 16th June and a brief summary of the overall position and key issues is set out below. Work in relation to the in-year financial monitoring position for 2016/17 is still at an early stage and updates will be provided to the Committee as the year progresses. Initial work has also begun in relation to budget preparation for 2017/18 and a report outlining the proposed budget strategy will be presented to Cabinet in July. A brief summary of the key issues and areas for consideration is set out below. Further information on the 2017/18 budget process will be provided to the Committee later in the year.

Issues

2015/16 Outturn

4. The revenue outturn position showed a surplus of £1.696 million after contributions to and from reserves as compared to the surplus of £988,000 reported at month nine. The improvement reflected a number of factors including a significant improvement to the directorate positions at the year end, a higher surplus on Council Tax and an increase in non-domestic rate (NDR) refunds on Council properties following successful appeals to the Valuation Agency. Additional funding of £862,000 was also received in relation to the Outcome Agreement Grant as a result of confirmation from the Welsh Government regarding meeting the agreed outcomes and successful performance in relation to 2014/15. These were partly offset by a reduction to the previously reported underspend on capital financing as a result of utilising the underspend to pay off historic premiums and penalties relating to rescheduling of borrowing undertaken

in previous years. This will enable savings to be released in support of the 2017/18 budget strategy. Contributions were also made to reserves including £1.0 million, which as set out in the Budget Report forms part of the funding for the 2016/17 Budget.

5. During the year the Council's monitoring process identified financial pressures in a number of directorates, notably Social Services, Corporate Management, City Operations and Economic Development. This reflected a range of factors including increased demographic pressures, shortfalls in income and the failure to fully achieve the savings targets set as part of the 2015/16 budget. Although overall, directorate budgets still reported an overspend of £4.635 million this represents a significant improvement compared to the monitoring position at month nine with the overall directorate position improving by £951,000. This included significant improvements to the positions in City Operations and Economic Development and both these directorates reported a surplus at the year end. Overspends of £5.022 million on Social Services and £372,000 on Corporate Management were still reported however these were partly offset by savings in other directorates. The directorate overspends were partially offset by the £4.0 million general contingency budget which was maintained as part of the 2015/16 budget in order to reflect the quantum, risk and planning status of the proposed savings in 2015/16. The overall position also included savings in other areas including Council Tax collection, NDR refunds on Council properties and additional income arising from successful performance against the 2014/15 Outcome Agreement Grant. A summary of the overall position is attached as an appendix to this report.
6. A shortfall of £6.586 million was reported against the £32.473 million directorate savings targets for 2015/16 with a further shortfall of £2.837 million against the savings targets carried forward from 2014/15. Although £3.029 million of these shortfalls was written back as part of the 2016/17 Budget this still leaves an on-going shortfall of £6.394 million to be achieved in 2016/17 in addition to the budget savings approved as part of the 2016/17 budget process itself. It is essential therefore that directorates continue to progress any outstanding savings from 2014/15 and 2015/16 so that these are fully achieved in the current financial year.
7. As part of the revenue budget proposals for 2015/16, the Council secured an in principal capitalisation direction from the Welsh Government allowing revenue costs based on securing service reform including statutory redundancy costs to be met from capital receipts from surplus assets. Eligible expenditure of £2.435 million was identified as part of the Council's outturn position and this was capitalised, with the capital receipts necessary to support this having been achieved during the year.
8. In total, redundancy costs incurred during the year amounted to £2.027 million of which £1.018 million was in respect of school based staff. The statutory redundancy costs were capitalised in line with the Welsh Government direction leaving just £399,000 to be funded in the General Fund via the voluntary severance budget in the SRA. The relatively low level of redundancy costs in 2015/16 allowed repayments of £4.377 million to be made to earmarked reserves to offset sums previously borrowed from reserves as part of the funding mechanism used to support the level of redundancy costs in previous years.

9. Increases in the Council's earmarked reserves as a result of the out-turn position will serve to improve the Council's overall financial resilience. In addition, the resources will be available to assist in funding one-off investments to support service transformation.
10. The Council Fund Balance at 31st March 2016 is £15.255 million. This includes the net revenue surplus of £1.696 million together with a further contribution of £1 million which in line with the 2016/17 budget proposals has been transferred to the balance and will be utilised in funding the 2016/17 budget.
11. Overall, schools increased their individual reserves by £1.234 million (net). A reduction of £1.106 million was also made to the on-going commitments arising from the 2014/15 overspend of £1.9 million on redundancy costs. When this is taken into account the overall increase in school balances is £2.34 million.
12. The Capital Programme Outturn for the General Fund and Public Housing for 2015/16 was £289.216 million, a variance of £35.565 million of which £33.631 million was in relation to slippage. The table below shows the movements in projected General Fund slippage from Month 4 through to Outturn. Significant elements of the increase in slippage for the General Fund (excluding SOP) between Month 9 and Outturn include £1.557 million Leisure, £1.032 million Highways Maintenance and £1.750 million Traffic and Transportation. Directorates are regularly reminded of the need to set achievable profiles and identify slippage at an early stage. This will be reinforced by the monitoring process in 2016/17.

General Fund Slippage	Month 4 reported slippage	Month 6 reported slippage	Month 9 reported slippage	Outturn slippage
	£000	£000	£000	£000
General Fund (excluding SOP)	4,868	7,427	7,967	15,397
SOP schemes	19,895	20,197	20,717	18,234
Total	24,763	27,624	28,684	33,631

13. The increased level of capital expenditure in 2015/16 is exceptional and is due to the £187.392 million settlement payment made by the Council to Welsh Government / HM Treasury to exit the Housing Revenue Subsidy System. This expenditure was funded by borrowing and HM Treasury required a cap on HRA borrowing to be implemented. Breach of this cap could result in the Council incurring financial penalties from Welsh Government, accordingly HRA capital expenditure priorities in its business plan and affordability of those will need to be managed so that any borrowing is within the cap.

2017/18 Budget Strategy

14. The 2016/17 Budget Strategy was a result of more collaborative target setting with clear emphasis on how existing budgets might be reshaped over the medium term to address the financial challenge. This resulted in a more detailed response to the medium term budget reduction requirement as outlined in the 2016/17 Budget Report.

15. Preparation for the 2017/18 Budget seeks to build on this momentum by bringing forward the usual focus for budget strategy tasks by at least one quarter. The existence of a set of proposals for 2017/18 has negated the need for a detailed target setting exercise. This has allowed the focus to shift immediately to review and more detailed development of proposals; something that would not usually commence until September.
16. Senior Management Team and Informal Cabinet have been engaged from the outset of the budget preparation process. They have considered the approach, budget strategy assumptions and savings proposals. This work, along with a refresh of the estimated budget reduction requirement, will culminate in the 2017/18 Budget Strategy Report which is due to be presented to Cabinet in July 2016. Subject to the approval of this report, it is anticipated that public consultation on general savings themes will take place as part of the Ask Cardiff Survey with more detailed consultation during the Autumn.
17. Settlement announcements are expected to revert back to usual timeframes this year, and Provisional Settlement is expected in October 2016. This will be a key date in terms of budget preparation given that there are currently no indicative funding figures for 2017/18. Whilst confirmation of funding levels remains a key risk, the Council used the opportunity afforded by the better than anticipated 2016/17 settlement to establish a £4 million financial resilience mechanism. The mechanism, which is equivalent to approximately 1% of Aggregate External Finance supports one off investment in priority areas, and is available for release in subsequent years in the event that the settlement is worse than the 1% reduction assumed in the Medium Term Financial Plan.

Reason for Recommendations

18. To inform Audit Committee of the Council's final outturn position for 2015/16 and to outline the work being undertaken in relation to the budget strategy for 2017/18.

Legal Implications

19. No direct legal implications arise from this report.

Financial Implications

20. There are no direct implications arising from this information report.

RECOMMENDATIONS

21. To note the Council's final outturn position for 2015/16 and the work being undertaken in relation to the budget strategy for 2017/18.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
June 2016

The following appendix is attached:

Appendix 1 – Revenue 2015-16