

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 29 November 2016

FINANCIAL UPDATE 2016/17

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5.1

Reason for this Report

1. To provide the Audit Committee with an update on the Council's financial position.

Background

2. To assist the committee in understanding the current financial context within which the Council is operating, this report sets out an overview of the current monitoring position for 2016/17 and gives an update on the preparatory work for 2017/18 and the medium term.

Issues

Financial Monitoring

3. Overall, the month six revenue monitoring for the Council shows a projected overspend of £537,000 an improvement of £313,000 compared to the position reported at month four. The improvement reflects a number of factors including further savings identified in directorate budgets, additional surplus on Council Tax collection and further NDR refunds on Council properties. These are partially offset by an increase to the projected overspend in the Social Services Directorate reflecting increased demographic and cost pressures and a reduction in the level of budget savings anticipated to be achieved. The majority of directorates are reporting improved positions compared to month four.
4. The overall position continues to reflect financial pressures and shortfalls against budget savings targets in directorate budgets although these are partly offset by projected savings on capital financing, the release of contingency budgets previously earmarked to fund voluntary severance costs, an anticipated surplus on Council Tax collection and NDR refunds on Council properties. Directorate budgets are currently projected to be overspent by £6.643 million however it is anticipated that continued management actions will enable this to be reduced by the year end. The current position includes projected overspends in the Social Services, City Operations and Governance & Legal Services Directorates and in Corporate Management. The directorate overspends are partially offset by the £4.0 million general contingency budget which was maintained as part of the 2016/17 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2016/17.

5. The projected overspends in directorate budgets include £5.581 million in Social Services, £771,000 in City Operations, £469,000 in Corporate Management and £42,000 in Governance and Legal Services. This position reflects a range of factors including increased demographic and cost pressures in Social Services, shortfalls in income and the anticipated failure to fully achieve the savings targets set as part of the 2016/17 Budget together with on-going shortfalls carried forward from the previous financial year.
6. The potential overspend includes a projected shortfall against the savings identified for each directorate as part of the 2016/17 budget together with any shortfalls against savings targets carried forward from the previous year. An overall shortfall of £5.611 million is currently anticipated against the £25.892 million directorate savings target with £10.412 million having been achieved to date and a further £9.869 million anticipated to be achieved by the year end. A projected shortfall of £1.751 million has also been identified in relation to savings targets carried forward from 2015/16. Overall, this represents an increase of £81,000 compared to the shortfalls identified in relation to the 2016/17 targets and the carried forward savings from 2015/16 reported at month four. The projected shortfalls are reflected in the directorate monitoring positions although where possible shortfalls have been offset by savings in other budget areas. The July Cabinet meeting approved the Budget Strategy Report for 2017/18 and identified the significant financial challenges that the Council faces in the medium term. The projected under-achievement of identified savings in 2016/17 together with those carried forward from the previous year underlines the difficulties of achieving year on year savings across the Council.
7. Actions are continuing to be taken by those directorates currently reporting a projected overspend to try to resolve the issues that led to the current position or alternatively to identify offsetting savings in other areas of the service. These are considered as part of the challenge process to review the performance of directorates including the budget monitoring position. In addition, the Chief Executive holds regular meetings with directors to identify measures to reduce the level of spend across the Council with the intention of improving the overall position as the year progresses. These reviews will continue throughout the year with the actions taken also discussed in the Chief Executive's monthly meetings with individual directors. In addition, as previously set out in the month four monitoring report, the Chief Executive has implemented a number of management actions with a view to achieving a balanced position by the end of the financial year. This includes measures relating to the purchase of goods and services, staffing arrangements and maximising income.
8. The Capital Programme for 2016/17 amounts to £127.023 million of which £101.538 million is in respect of General Fund schemes and £25.485 million is in relation to the Council's Public Housing schemes. Against this, the projected outturn for 2016/17 is £102.732 million resulting in a total variance of £24.291 million. The most significant variance is in relation to the construction of the new Eastern High School with slippage also identified against a range of other schemes including £2.4 million against Public Housing schemes. Directorates have been reminded of the need to avoid slippage wherever possible by ensuring that their project plans and profiles of activity are robust.
9. Cabinet approved the Month Six Monitoring Report at their meeting on 21 November 2016.

Budget Preparation

10. Following the approval of the Budget Strategy report by Cabinet and Council in July 2016, directorates spent the summer reviewing and updating their savings proposals and testing their achievability as part of establishing a balanced budget position for approval by Council in February 2017. The Budget Strategy report indicated a budget gap of £24.3 million in 2017/18 and £75.3 million over the period to 2019/20. Within those figures, directorate savings were expected to amount to some £43 million over the three years with the balance accounted for through other strategy assumptions including increases in Council Tax.
11. Work has been carried out to update and review the budget strategy assumptions and to undertake due diligence on the initial 2017/18 savings proposals. Due diligence work has also been undertaken in respect of the budget savings shortfalls identified as part of the budget monitoring process in the current financial year in order to form a view regarding the future achievability of these savings. The outcome of this work together with the identification of further budget pressures and an updated funding position following the announcement of the Provisional Settlement is reflected in the 2017/18 Budget Proposals – For Consultation Report which was approved by Cabinet on 10 November. The report and the consultation document can be accessed via the [Link](#). This identified a budget reduction requirement of £25.1 million for 2017/18 an increase of £0.8 million compared to the Budget Strategy Report in July.
12. The Welsh Government's Provisional Local Government Settlement was announced on the 19 October and set out a cash increase of 0.3% in Aggregate External Finance (AEF) for Cardiff which equates to additional cash of £1.437 million. However other factors including the impact of new responsibilities meant that the true cash increase for Cardiff was £887,000. This compares to a Welsh average increase of 0.1%. A number of specific grants have yet to be confirmed and this will need to be kept under review. The Provisional Settlement also contained an increase in General Capital funding of 0.3% equating to £41,000 in cash terms. The Final Settlement is expected to be announced on 21 December.
13. In addition to updating the budget reduction requirement for 2017/18 the 2017/18 Budget Proposals – For Consultation Report also set out the budget savings proposals for consultation. The formal budget consultation commenced on 10 November and will run until 11 December. The results of the consultation process will then be considered by Cabinet as part of preparing their final 2017/18 budget proposal.

Reason for Recommendations

14. To inform Audit Committee of the current financial context for the Council.

Legal Implications

15. No direct legal implications arise from this report.

Financial Implications

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

Recommendations

17. To note the financial information provided and the process being adopted in respect of budget preparation for 2017/18 and the medium term.

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November 2016**