

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 24 January 2017

FINANCIAL UPDATE 2016/17

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.1

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. The Cabinet considered the Month Six Monitoring Report on 21 November 2016 and a summary of this was presented to the Audit Committee at its meeting on 29 November. The next full Council monitoring report will be based on the position at month nine and this is due to be presented to Cabinet on 16 February. For information, a summary of the month six monitoring position is set out below. The key issues identified at month six are not expected to change significantly however it is anticipated that further improvements to the overall position will be reported as the year progresses. Work is currently progressing on the month nine monitoring position and this will be reported to the Committee at its meeting on 28 March.
4. Overall, the month six revenue monitoring for the Council showed a projected overspend of £537,000 an improvement of £313,000 compared to the position reported at month four. The improvement reflected 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 were 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 reported improved positions compared to month four.
5. The overall position continued to reflect financial pressures and shortfalls against budget savings targets in directorate budgets although these were 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 were 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 position included projected overspends of £5.581 million in Social Services, £771,000 in City Operations, £469,000 in Corporate Management and £42,000 in Governance & Legal Services. The directorate overspends were 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.

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. At month six an overall shortfall of £5.611 million was 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 was also identified in relation to savings targets carried forward from 2015/16. 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. In addition, 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 was £102.732 million resulting in a total variance of £24.291 million. The most significant variance was 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.

Budget Preparation

9. 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.
10. Work was 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 was also 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 in October was reflected in the 2017/18 Budget Proposals – For Consultation Report which was approved by Cabinet on 10 November. 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. The formal budget consultation commenced on 10 November and ran until 16 December. The results of the consultation process are being considered by Cabinet as part of preparing their final 2017/18 budget proposal.
11. The Welsh Government's Final Local Government Settlement was announced on 21 December and set out a cash increase of 0.5% in Aggregate External Finance (AEF) for Cardiff. This compares to a Welsh average increase of 0.2%. The published increase of 0.5% equates to additional cash of £2.298 million, however other factors including the impact of new responsibilities mean that the true cash increase for Cardiff is only £294,000. When these factors are taken into account the result is a net reduction of £593,000 as compared to funding in the Provisional Settlement. A number of specific grants have yet to be confirmed and this will need to be kept under review. The Final Settlement also contained an increase in General Capital funding of 0.3% equating to £41,000 in cash terms. This is in line with the Provisional Settlement.
12. Cabinet are currently reviewing their budget proposal to reflect the final settlement, the results of the consultation process and updates to the budget reduction requirements for 2017/18, including reflection of the updated Council Tax base as approved by Cabinet in December 2016. Their final draft proposal will be presented to the Cabinet meeting on 16 February 2017. The Council's Budget will then be considered and set by Council at its meeting on 23 February.

Reason for Recommendations

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

Legal Implications

14. No direct legal implications arise from this report.

Financial Implications

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

Recommendations

16. 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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