

# **CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE:**

**14 MARCH 2017**

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## **FINANCIAL UPDATE 2016/17**

### **REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 4.1**

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#### **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 financial position.

#### **Background**

3. 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 provides a brief update on the 2017/18 Budget approved by Council on the 23 February 2017 and the medium term.

#### **Issues**

##### **Financial Monitoring**

4. The Cabinet considered the Month Nine Monitoring Report on 16 February 2017. Overall, the month nine revenue monitoring for the Council showed a balanced position against budget, an improvement of £537,000 compared to the position reported at month six. The improvement reflected a number of factors including a significant saving on insurance costs, additional surplus on Council Tax collection and further NDR refunds on Council properties. These were partially offset by a reduced saving on capital financing costs and by an overall increase in the projected overspend on directorate budgets. Further projected overspends were reported in relation to Social Services, City Operations and Education & Lifelong Learning with all other directorates reporting improved positions compared to month six.
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 and insurance costs, 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 £7.032 million however it is anticipated that continued management actions will enable this to be

reduced by the year end. The projected overspends include £5.981 million in Social Services, £955,000 in City Operations, £425,000 in Corporate Management and £100,000 in Education & Lifelong Learning. This 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. 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. An overall shortfall of £6.253 million is anticipated against the £25.892 million directorate savings target with £14.701 million having been achieved to date and a further £4.938 million anticipated to be achieved by the year end. The budget approved by Council on the 25 February 2016 identified red or red / amber achievability risks totalling £11.663 million with £2.752 million of the savings proposals still at a general planning stage. These risks are evident in the projected shortfall reported as part of the month nine monitoring. A projected shortfall of £1.832 million has also been identified in relation to savings targets carried forward from 2015/16. Overall, this represents an increase of £723,000 compared to the shortfalls identified in relation to the 2016/17 targets and the carried forward savings from 2015/16 as reported at month six. The projected shortfalls are reflected in the directorate monitoring positions although where possible shortfalls have been offset by savings in other budget areas. The £4.0 million general contingency budget which was allocated to reflect the risk and planning status of the proposed savings for 2016/17 is also available to offset the shortfall in the current financial year.
7. Actions are continuing to be taken by those directorates reporting a projected overspend to try to resolve the issues that led to this 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.
8. The total Capital Programme for 2016/17 amounts to 128.3 million with a projected outturn of £109.8 million resulting in a net variance of £18.5 million. The majority of the variance is due to slippage and includes a significant variance in relation to the 21<sup>st</sup> Century Schools Programme including the new Eastern High School. Directorates have been reminded of the need to avoid slippage wherever possible by ensuring their project plans and profiles are robust.

### **2017/18 Budget and Medium Term**

9. The 2017/18 Budget was approved by Council on 23 February 2017. The Budget is aligned with the priorities identified in the Corporate Plan and with the Council's values. For example, the budget contains:-
  - £7.2 million investment in schools
  - significant investment in social services including net growth of £9.2 million and resources for 68 additional posts

- support for Cardiff Capital Region City Deal (CCRCD) and in Central Square
  - savings that aim to avoid cuts where possible by adopting a more commercial approach, by working with others and by challenging internal processes
  - a two stage consultation process.
10. Technical features of the budget aim to ensure that the impact of decisions taken now are balanced with their impact on future generations. There is close alignment between the budget and the seven Liveable City Outcomes that in turn are closely aligned to the national ambitions for Wales' wellbeing as defined in the Future Generations Act.
11. In setting the 2017/18 budget, which totals £586.984 million, an underlying budget reduction requirement of £24.880 million was addressed through the following measures:-

	<b>£000</b>
30% cap on schools growth (non pupil number)	1,853
Use of Earmarked Reserves	1,500
Savings	17,007
Council tax at 3.7% (net)	4,520
<b>TOTAL</b>	<b>24,880</b>

12. The due diligence for the 2017/18 budget process took account of the risk in respect of the unachieved savings identified within the 2016/17 budget monitoring process. Based on this review, the 2017/18 Budget includes the write out of £1.073 million of prior year savings based on the perceived risk associated with their future achievability. Directorate base budgets for 2017/18 reflect the consequential budget realignments.
13. The 2017/18 budget savings of £17.007 million were risk rated for residual risk, achievability risk and their equalities impact. No proposals were rated as having a red risk in any of these categories. Proposals with red-amber risk totalled £6.575 million in respect of residual risk, £6.727 million in respect of achievability risk and £3.618 million in respect of their equalities impact. All proposals with a red-amber equalities rating have been subject to a full Equalities Impact Assessment.
14. The planning status of savings has been reviewed with 95% of the proposed savings either having been realised or with detailed plans in place. The achievement of savings will be closely monitored through the coming year. The £4 million general savings contingency that was established in 2014/15 has been reduced by £1 million as part of the 2017/18 budget. This is in recognition that the quantum of savings for 2017/18 is significantly lower than in previous years.
15. The final settlement for Cardiff set out a funding increase of 0.5% which equates to additional cash of £2.3 million compared with 2016/17. However, the actual increase in spending power for Cardiff reduces to £294,000 once new responsibilities and other differentiating year on year factors are taken into account.

16. As part of the 2016/17 budget a £4 million Financial Resilience Mechanism (FRM) was established. The mechanism, which is equivalent to approximately 1% of AEF 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 MTFP. The Final Settlement confirmed that release of the Council's FRM would not be required in 2017/18. Consequently, the mechanism will be available during 2017/18 for one-off investment. As noted below, its use has been determined taking into account comments received as part of consultation.
17. A two-stage consultation took place in relation to the 2017/18 budget. Consultation on general budget themes took place via Ask Cardiff and this paved the way for a more detailed consultation that ran between 10 November 2016 and 16 December 2016. Engagement on the Budget also took place with Scrutiny Committees, Trade Unions, employees and School Budget Forum.
18. Some changes have been made to the budget proposal since public consultation. These include technical updates to take account of final settlement, emerging pressures and most recent price information. In addition, in drafting the final Budget Proposal Cabinet took account of consultation feedback. In general, there was significant support via the consultation for key budget assumptions and themes. In drafting the final budget proposal, changes have been made to reflect specific comments – e.g. the removal of fees for child burial and cremation. In addition, the Council's financial resilience mechanism will be invested in a way that supports priorities that were identified as part of the consultation, including highways improvement and street scene.
19. There will be a net increase of 53.55 full time equivalent (FTE) Council posts as part of the 2017/18 Budget. This is made up of the deletion of 43.90 FTE offset by the creation of 97.45 FTE. The net increase in posts in 2017/18 follows several years of significant reductions, and is largely attributable to the creation of additional posts in Social Services to address demand pressures and the requirements of the Social Services and Well-being Act.
20. The Medium Term Financial Plan (MTFP) for the financial years 2018/19 to 2020/21 as set out in the Budget Report shows a potential budget gap of £80.907 million over the three-year period. This is the base case position with a worse case analysis indicating a potential budget gap of £105.824 million for the same period. The Budget Report sets out a range of measures and budget savings based on themes to address the potential base budget gap. Work will now commence on the 2018/19 Budget to enable a Budget Strategy Report to be presented to Council in July 2017. This will also provide an update to the MTFP for any known changes.
21. The Capital Programme for 2017/18 totals £143.049 million with £373.076 million identified in relation to the Programme as a whole over the period 2017/18 to 2012/22. The capital budget for 2017/18 will be updated during the financial year for any additional approved grant funding towards capital schemes.
22. The Budget Report included an extensive section on the Council's financial standing, risks and financial resilience, which also set out the position on Council reserves. This section was accompanied by a further update of the Council's financial resilience snapshot, which is included at Appendix 1 to this report.

### **Reason for Recommendations**

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

### **Legal Implications**

24. No direct legal implications arise from this report.

### **Financial Implications**

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

### **RECOMMENDATIONS**

26. To note the financial information provided in respect of the 2016/17 monitoring position and the outcome of the budget for 2017/18 and the medium term.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**March 2017**

*The following appendices are attached:*

Appendix 1 – Financial Snapshot – Budget Report Version