

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 28 November 2017

FINANCIAL UPDATE 2017/18

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 2017/18 and gives an update on the preparatory work for 2018/19 and the medium term.

Issues

Financial Monitoring

3. Overall, the month six revenue monitoring for the Council shows a balanced position against budget, an improvement of £883,000 compared to the position reported at month four. The improvement reflects management actions introduced to control expenditure in the current year together with in-year targeted savings identified by directorates. There was also a further increase in NDR refunds on Council properties.
4. The overall position continues to reflect a range of demographic, service and other financial pressures including shortfalls against budget savings targets in directorate budgets and a projected overspend in relation to capital financing costs. These are offset by projected savings in directorate budgets as a result of management actions, a saving on Insurance budgets, the release of contingency budgets, an anticipated surplus on Council Tax collection and NDR refunds on Council properties. Directorate budgets are currently projected to be overspent by £4.956 million with projected overspends in the Social Services, Economic Development and Education & Lifelong Learning Directorates. These are partly offset by projected underspends in other directorates and by the £3.0 million general contingency budget which was provided as part of the 2017/18 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2017/18. It should be noted that the 2017/18 Budget reduced the previous general contingency budget by £1 million.

5. The projected overspends in directorate budgets include £3.198 million in Social Services, £1.347 million in Economic Development and £1.158 million in Education & Lifelong Learning. This reflects a range of factors including increased demographic pressures in Social Services and Education & Lifelong Learning, particularly in relation to looked after children and children with additional learning needs. There are also significant demographic and cost pressures in Waste Services. The projected overspends also include shortfalls in income and the anticipated failure to fully achieve the savings targets set as part of the 2017/18 Budget together with on-going shortfalls carried forward from the previous financial year.
6. An overall shortfall of £1.954 million is currently anticipated against the £14.157 million directorate savings target with £6.137 million having been achieved to date and a further £6.066 million anticipated to be achieved by the year end. The budget approved by Council on the 23 February 2017 identified red or red / amber achievability risks totalling £6.627 million with £845,000 of the savings proposals still at a general planning stage. These risks are evident in the projected shortfall currently reported as part of the month six monitoring. A projected shortfall of £1.782 million has also been identified in relation to savings targets carried forward from 2016/17. Overall, this represents an increase of £267,000 compared to the shortfalls identified in relation to the 2017/18 and carried forward savings as 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 £3.0 million General contingency budget which was allocated to reflect the risk and planning status of the proposed savings for 2017/18 is also available to offset the shortfall in the current financial year. Although the projected shortfalls are lower than in recent years, this continues to be a cause for concern given the financial outlook in the medium term and the difficult choices facing the Council in the current budget round.
7. Actions are being 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 will be considered as part of the challenge process to review the performance of directorates including the budget monitoring position. These reviews will continue throughout the year and the actions taken will also be discussed in the Chief Executive's monthly meetings with individual directors. In response to the level of financial pressures identified in the current year all directorates have also reviewed their monitoring positions and identified a range of in-year savings which are reflected in their reported positions. The scope of the review included non-essential third party spend, temporary staff arrangements and opportunities to maximise income. This has enabled a balanced position to be reported at month six.
8. The 2017/18 Capital Programme is £154.941 million of which £122.354 million is in respect of General Fund schemes and £32.587 million is in relation to the Council's Public Housing schemes. Against this, the projected outturn for 2017/18 is £140.731 million resulting in a total variance of £14.210 million. The most significant variance is in relation to the 21st Century Schools Programme (Band A) within the Schools Organisation Plan with slippage also identified against a range of other schemes including £2.3 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 16 November 2017.

Budget Preparation

10. Following the approval of the Budget Strategy Report by Cabinet in July 2017, directorates spent the summer reviewing and updating savings proposals and testing their achievability as part of establishing a balanced budget position for approval by Council in February 2018. The Budget Strategy Report indicated a potential budget gap of £23.5 million in 2018/19 and £73.5 million over the period to 2020/21. Within those figures, directorate savings were expected to amount to £52 million over three years with the balance accounted for through other strategy assumptions including increases in Council Tax.
11. Until Provisional Settlement was announced in October 2017, Welsh Local Authorities had received no indicative funding figures for 2018/19. The budget gap outlined in the Budget Strategy Report assumed a 1% funding reduction for Cardiff in 2018/19. This was in light of general warnings from Welsh Government that Local Authorities should expect further challenging financial settlements. When provisional funding for 2018/19 was announced on the 10 October 2017, the average settlement across the 22 Welsh Authorities was a decrease of 0.5%, with individual settlements ranging from a 0.2% increase to a 1% decrease. Cardiff was the authority in receipt of the 0.2% increase, which equates to additional cash of £954,000 in 2018/19. The 0.2% increase is a more favourable funding settlement than the Council had previously anticipated although it is important to note that the higher than average settlement is indicative of increased demand.
12. Information on specific grants for 2018/19 was published two weeks later than Provisional Settlement this year on 24 October 2017. Grant listings are currently at an All Wales level and require further clarity. However, of note are higher than anticipated reductions to the residual Single Revenue Grant (Environment) and an 11% reduction to Education Improvement Grant (with a further 8% reduction planned for 2019/20). The Welsh Government also announced the intention to run a pilot, of which Cardiff will form part, to allow funding flexibility across a number of existing grants including Families First, Flying Start, Supporting People and Communities First Legacy Fund. This could be taken a step further in 2019/20, with the potential merger of these and further grants into a single "Early Intervention, Prevention and Support Grant" which could combine grants totalling £265 million at an All Wales level.
13. The budget gap has been updated to reflect the funding levels announced in the Provisional Settlement, as well as to take account of increasing demand and most recent inflation and interest rates. The outcome of this update is reflected in the 2018/19 Budget Proposals - For Consultation Report, which was approved by Cabinet on 2 November. The report and consultation document, which are available on line identified an updated budget reduction requirement of £22.8 million for 2018/19. In addition to updating the budget reduction requirement, the Report also sets out the budget savings proposals for consultation. The formal budget consultation commenced on 2 November and will run until 14 December.

The results will be considered by Cabinet in preparing their final 2018/19 budget proposal.

14. The Final Local Government Settlement is expected to be announced during week commencing 18 December 2017. This year, the UK Budget will take place in the Autumn, on 22 November 2017. This timing increases the possibility of change between provisional and final settlement and the risk of further emerging financial pressures. As well as potentially affecting the Welsh Block Grant, the UK budget could make other announcements, for example, in relation to public sector pay. Any such announcements will increase financial pressures in the event they are not fully-funded.
15. With regards the medium term, the Provisional Settlement announced an indicative average AEF reduction of 1.5% for 2019/20. This was with the caveat that the reduction is based on an assumption that the UK Government will proceed with £3.5 billion of cuts planned for 2019/20 that are as yet unallocated. The WG have indicated an intention to review the indicative 1.5% reduction if the UK Budget signals an intention not to proceed with these cuts. Two other key factors of note in relation to the medium term are the proposed review of NJC pay scales and WG's plans to explore Local Government Finance (LGF) Reform. The review of pay scales is expected to have an impact in 2019/20 although this is difficult to quantify at this stage. The WG's intention to consider LGF reform were published alongside the Provisional Settlement. The paper set out a number of areas proposed for review including exploring the potential for more frequent council tax revaluation, the relativity between council tax bands (the current system of ninths), the potential for some form of Non-Domestic Rates (NDR) localisation and in the longer term, the feasibility of replacing NDR with a land value tax.

Reason for Recommendations

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

Legal Implications

17. No direct legal implications arise from this report.

Financial Implications

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

Recommendations

19. To note the financial information provided and the process being adopted in respect of budget preparation for 2018/19 and the medium term.

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