

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

**AUDIT COMMITTEE: 27 March 2018**

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## **FINANCIAL UPDATE 2017/18**

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

**AGENDA ITEM: 5.1**

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#### **Reason for this Report**

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

#### **Background**

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 provides a brief update on the 2018/19 Budget and the medium term outlook approved by Council on 22 February 2018 and the medium term.

#### **Issues**

##### **Financial Monitoring**

The Cabinet considered the Month Nine Monitoring Report on 15 February 2018. Overall, this report showed a balanced position for the Council which was in line with the position reported at month six. There were however changes within the overall position including an increase in the overspend on directorate budgets as a result of further pressures on the Children's Services budgets within Social Services, an increase in the projection for capital financing costs and a reduced surplus on Council Tax collection. These were offset by a further increase in NDR refunds on Council properties and by an increase in the projected saving on insurance budgets in the current year.

The overall position continued 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 were 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 were projected to be overspent by £5.204 million with projected overspends in the Social Services, Economic Development and Education & Lifelong Learning Directorates. These were 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 £1.0 million. The projected overspends in directorate budgets included £3.990 million in Social Services, £1.0 million in Economic Development and £998,000 in Education & Lifelong Learning. This reflected 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 were 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.

An overall shortfall of £2.159 million was anticipated against the £14.157 million directorate savings target with £8.188 million having been achieved to date and a further £3.810 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 reported as part of the month nine monitoring. A projected shortfall of £2.001 million was also identified in relation to savings targets carried forward from 2016/17. Overall, this represents an increase of £424,000 compared to the shortfalls identified in relation to the 2017/18 and carried forward savings 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 £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.

Actions are continuing to be taken by those directorates 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. As set out in the previous monitoring report at month six, in response to the level of financial pressures identified in the current year all directorates reviewed their monitoring positions and identified a range of in-year savings. The scope of the reviews included non-essential third party spend, temporary staff arrangements and opportunities to maximise income. The savings generated as a result of these reviews were reflected in their month nine directorate monitoring positions.

The 2017/18 Capital Programme was £167.886 million at month nine of which £135.299 million was in respect of General Fund schemes and £32.587 million was in relation to the Council's Public Housing schemes. Against this, the projected outturn for 2017/18 was £140.197 million resulting in a total variance of £27.689 million. The most significant variance was in relation to slippage in the 21<sup>st</sup> Century Schools Programme (Band A) within the Schools Organisation Plan with variances also identified against a range of other schemes including £3.5 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.

## 2018/19 Budget and Medium Term

The 2018/19 Budget was approved by Council on 22 February 2018. The Budget aligns with the priorities in the Corporate Plan. For example:-

- It supports the vulnerable with £8.4 million additional funding for Social Services and £0.8 million to tackle homelessness.
- It reflects a commitment to better education and skills by providing £7.2 million additional support for schools and funding for the Cardiff Commitment.
- It helps support an economy that benefits all our citizens with capital investment in the Cardiff Capital Region City Deal (CCRCDC) and additional revenue and capital support for transport and infrastructure.
- It reflects the commitment to work together to transform services with a two stage consultation process and a programme of savings that seek to find ways in which the Council can work differently through generating income, reviewing processes and focussing on early intervention and prevention to avoid cuts to front line services where this is possible.

In setting the 2018/19 Budget, which totals £608.913 million, an underlying budget reduction requirement of £25.248 million was addressed through the following measures:-

	<b>£000</b>
Cap on schools growth (non-pupil number)	2,196
Use of Earmarked Reserves	2,350
Savings	14,296
Council Tax at 5% (net)	6,406
<b>TOTAL</b>	<b>25,248</b>

The due diligence for the 2018/19 budget process took account of the risk in respect of the unachieved savings identified within the 2017/18 budget monitoring process. The 2018/19 Budget includes the write of £306,000 prior year savings based on the perceived risk associated with their future achievability. Directorate base budgets for 2018/19 reflect the consequential budget realignments.

The 2018/19 budget savings of £14.3 million were rated in terms of residual and achievability risk. Proposals rated red or red-amber totalled £6.9 million in terms of achievability risk, £6.2 million in terms of residual risk and £1.9 million in terms of equalities impact. All proposals with a red or red-amber equalities rating have been subject to a full Equalities Impact Assessment. The planning status of savings has also been reviewed with 90% 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 final settlement for Cardiff set out a funding increase of 0.9%, which equates to additional cash of £3.898 million when compared to 2017/18. However, this sum is eroded to £2.426 million (+0.55%) after taking account of new responsibilities that are included within the overall settlement quantum. The 2018/19 settlement also included some changes in relation to specific grants including the partial transfer into Revenue Support Grant (RSG) of the Single Revenue Grant and the amalgamation of a number of large grants, including

Supporting People, Families First and Flying Start, supported by an outcome framework. The settlement also indicated an 11% reduction to the Education Improvement Grant stream for 2018/19 largely attributable to the removal of the MEAG and Gypsy and Traveller elements of the grant. Whilst there were initial concerns that this could have had a £4.1 million impact for Cardiff, transitional arrangements have been put in place for 2018/19 whilst WG work with Authorities to identify a longer-term solution. This will need to be kept under review in the context of the medium term.

Use of the Council's £4 million Financial Resilience Mechanism (FRM) for 2018/19 was determined following the final settlement, which confirmed that the budget would not need to be released in 2018/19. Its use in 2018/19 will include £1.9 million to support visible street scene service and £1.2 million to support transitional arrangements including the mitigation of specific grant issues affecting 2018/19. Full details of how the FRM will be spent in 2018/19 are available in the Budget Report.

A two-stage consultation took place in relation to the 2018/19 Budget. Consultation on general budget themes took place via Ask Cardiff and this paved the way for a more detailed consultation that ran between 2 November 2017 and 14 December 2017. Engagement on the Budget also took place with Scrutiny Committees, Trade Unions, employees and School Budget Forum. As well as indicating support for savings proposals, the city-wide public consultation identified people's top three priorities for investment as building affordable houses and tackling homelessness, investing in sustainable transport and intervening early to support vulnerable children. All of these areas are reflected in the 2018/19 Revenue Budget or the 2018/19 – 2022/23 Capital Programme.

There will be a net decrease of 24.19 full time equivalent (FTE) posts in connection with the 2018/19 Budget. This comprises 39.19 FTE deletions offset by the creation of 15 new FTE posts. The net decrease of 24.19 FTE takes the cumulative FTE reduction since 2012/13 to 1,577 FTE.

The Medium Term Financial Plan (MTFP) for the financial years 2019/20 – 2021/22 as set out in the Budget Report shows a potential budget gap of £91.4 million over the three-year period. This is the base case analysis with a worse case analysis indicating a potential budget gap of £117.4 million over 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 2019/20 Budget to enable a Budget Strategy Report to be considered in July 2018. This will also provide an update to the MTFP for any known changes.

The Capital Programme for 2018/19 totals £141.764 million with a total five year spend of £720.7 million. This includes both housing and general fund capital schemes. As Audit Committee will be aware from the Treasury Management Strategy, this will result in an increase in the Council's borrowing requirement over the medium term. The capital budget for 2018/19 will be updated during the financial year for any additional approved grant funding towards capital schemes.

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**

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

### **Legal Implications**

No direct legal implications arise from this report.

### **Financial Implications**

There are no direct implications arising from this information report.

### **Recommendations**

To note the financial information provided in respect of the 2017/18 monitoring position and the outcome of the budget for 2018/19 and the medium term.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES  
March 2018**

*The following appendices are attached:*

Appendix 1 – Financial Snapshot – Budget Report Version