

Name of meeting: Cabinet
Date: 25th August 2015

Title of report: Corporate Revenue Financial Monitoring Report,
 Quarter 1, 2015-16

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the Council's Forward Plan?	Yes
Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by <u>Director</u> & name	David Smith, 12 August 2015
Is it signed off by the Director of Resources?	Yes
Is it signed off by the Assistant Director - Legal, Governance and Monitoring	No legal implications
Cabinet member portfolio	Resources

Electoral [wards](#) affected: All
Ward councillors consulted: None

Public or private: Public

1. Purpose of report

- 1.1 This report is the first in an agreed quarterly cycle of consolidated revenue budget monitoring statements to be presented to Cabinet during the course of the financial year.
- 1.2 This report, and the accompanying Appendices A & B presents an overall forecast revenue outturn for 2015-16, as at Quarter 1, including commentary on emerging developments and risks.
- 1.3 The report also includes a summary update on Council reserves also included at Appendix A.

2. Key points

GENERAL FUND

- 2.1 The Council's general fund net controllable revenue budget for 2015-16 is **£314.1million (m)**, and includes a (net) budget reduction of £10m.
- 2.2 Overall, there is a reported Quarter 1 forecast **net overspend position of £783k or 0.2%**, against the **£314.1 m** net controllable revenue budget, as summarised at Appendix A.
- 2.3 Within the overall forecast, there are net Directorate pressures totalling £13.1m; includes demand led pressures on Adults at £4.4m, Children & Young People at £2.9m, and Waste Services at £650k.
- 2.4 There is also a specific pressure on Public Health budgets of £1.6m, impacted on by the government intention to clawback Council public health grant allocations in-year, as part of the overall July 8 budget announcement.
- 2.5 Elsewhere within Place, schools transport is reflecting a current overspend of £1.1m , and this was also acknowledged as part of the formal budget approval process for 2015-18 to be a continuing area of budget risk.
- 2.6 The above pressures have been mitigated in-year partly through Better Care Funding applied of £2.2m to Adults demand led pressures, and Central (contingency) budget set aside to mitigate Directorate pressures, totalling £1.9m.
- 2.7 The Quarter 1 projections also include the proposed drawdown of "one-off" earmarked reserves totalling £5.6m, to mitigate both the volume element of demand led pressures, and other service pressures. These are set out in more detail at Appendix B attached.
- 2.8 There is also a balance of £2.5m Central budget forecast underspend; mainly £1.7m Treasury Management & reflects the impact of previous Cabinet approvals to apply available capital receipt/grant/revenue funding to service debt.
- 2.9 Appendix B to this report summarises key forecast variances across Directorate and Central budget activity, as at Quarter 1.

COLLECTION FUND

- 2.10 The Collection Fund forecasts here are based on Council shares of Collection Fund income due. There is a forecast in-year surplus of £1.8m on Council tax; equivalent to 1.2% against budget income of £141m; mainly due to council tax income collection performance in excess of targeted.
- 2.11 There is a current forecast nil variance against business rates income of £51.4m. There remains the potential for this forecast to change significantly, depending on the outcome of outstanding back-dated valuation appeals currently with the Valuation Office, and for which a £7.5m provision has been set aside in the accounts to mitigate.

HOUSING REVENUE ACCOUNT (HRA)

- 2.12 There is a forecast surplus of £1M against the ring-fenced HRA; equivalent to 1.0% against annual budgeted turnover (income) of £96m. The most significant variance is (£516k) relating to repairs and maintenance; less than anticipated costs on empty homes and responsive repairs. HRA surpluses or deficits at each year end transfer to HRA reserves. The budget announcement on 8 July with regard to a proposed 1% per annum rent reduction over the next 4 years, has significant financial implications for the HRA, and this is covered in the section below (para 2.17).

EMERGING DEVELOPMENTS / RISKS

CHANCELLOR'S JULY 8 BUDGET ANNOUNCEMENT

- 2.13 The Chancellor's budget announcement on 8 July 2015 included the in-year (2015-16) clawback of £200m public health grant nationally. Kirklees estimated share of the clawback is £1.6m, and this is factored into the Quarter 1 monitoring projections. This estimate is subject to current government consultation which runs to the end of August, setting out options for the saving. It is not yet known whether or not the in-year grant reduction will inform the new baseline grant allocation for future years.
- 2.14 There is the possibility of central government departments requesting further in-year grant reductions, including current proposals by the Ministry of Justice to reduce Youth Justice Board grant allocation; potential impact on Kirklees, £87k in-year specific grant reduction. This proposal is currently out to consultation and is not reflected in quarter 1 monitoring.
- 2.15 Government has also deferred Phase 2 of the Care Act, relating to the capping of client contributions towards their care costs, originally to be implemented from 1 April 2016. This has now been deferred to 2020. At this stage it is not known whether or not Government will review the national Care Act New Burdens grant previously incorporated into the 2015/16 national funding settlement. Kirklees grant allocation in 2015-16 is £1.97m of which £600k has been drawn down to date.
- 2.16 There was also a headline announcement regarding significant increases in the current national minimum wage for the over 25's, rising from the current £6.50 per hour, to £7.20 from 2016-17, to £9 per hour by 2020.

The Local Government Association has estimated that the overall cost pressures on Local Government, who are the major purchasers of these services, could be in excess of £1 billion resultant from a minimum wage uplift to £9 per hour by 2020.

The Council implemented a local living wage from April 2015 at £7.88 per hour, and the financial implications of this were factored into approved budget plans. Consideration would need to be given to the impact of any future national minimum wage uplift relative to the Council's current local living wage hourly rate.

- 2.17 Another key announcement concerns proposals to achieve government target welfare spend reductions by 2020; including the proposal to reduce Council housing and registered provider rents by 1% per annum for each of the following 4 years after 2015-16. Effectively about two-thirds of total social housing rents are supported by housing benefit. It is expected that these proposals will be formalised into a forthcoming Housing Bill later in the year, along with other housing related proposals.

This will have a significant impact on the whole social rented housing sector. The impact on Kirklees HRA is a forecast reduction in annual (base) rental income, in excess of £10m per annum by 2020. To put this into perspective, current year budgeted rental income is £84m. The £10m calculated annual rent reduction by 2020 is based on a comparison of what government previously allowed for as annual rental increases across the sector (Consumer Price Index or CPI, plus 1%) compared to the current proposal for a 1% per annum reduction over each of the next 4 years. The calculation is also based on current HM Treasury CPI forecasts over the next 4 years.

Senior officers will be working closely with lead members over the coming months to undertake a more wide ranging assessment of the impact and implications for HRA over the medium term.

- 2.18 There were no specific proposals to revise the national funding allocation (revenue support grant) in-year. However, the Office of Budget Responsibility set out updated public sector expenditure forecasts to 2020 as part of the 8 July budget announcement. These suggest, albeit heavily caveated, that there may be scope for government to review the profile of future year public sector funding reductions across years, and how this may translate to specific local government funding reductions to 2020, compared to current MTFP forecasts. A further report updating the MTFP will be presented to Cabinet on 22 September and Council on 7 October 2015.
- 2.19 Officers will continue to report back to Cabinet through the quarterly monitoring process on emerging national developments and risks, including specific impacts on in-year monitoring. The autumn spending review, which government has announced will be 25 November, will provide further clarification. In preparation for the forthcoming budget round, the Council's budget strategy update report 2016-19, due to Cabinet and full Council early October, will take into account emerging national intelligence where appropriate, including the above.

OTHER

- 2.20 Responsibility for existing clients funded by the Independent Living Fund transferred to Councils from the Department of Works & Pensions, from 1 July 2015. This includes a funding transfer to meet transferred client cost commitments to year end, by way of an un-ring-fenced grant. Members are asked to approve that the £704k funding allocation for Kirklees to cover July to 31 March 2016, be applied for the purposes as set out above. Future year funding allocations will be confirmed as part of the autumn spending review.

- 2.21 The Council has received a further un-ring-fenced Special Educational Needs (SEN) grant allocation of £265k in 2015-16, in addition to the grant allocations for in the previous 2 years, to support the implementation of the Children & Families Act. Members are asked to approve that this funding be applied for the purposes as set out above, managed through the Learning & Skills Service.

GOVERNANCE ARRANGEMENTS – NEW COUNCIL PROGRAMME BOARD

- 2.22 Council Financial Procedure Rules allow for the Director of Resources to delegate budget management responsibility for cross-directorate activity, to a particular Director. The summary reporting format as set out at Appendix A reflects the fact that the Chair of the New Council Programme Board, Director of Economy & Skills, has been given delegated overall budget management responsibility for approved budgets in scope as part of the economic resilience and early intervention & prevention theme work.
- 2.23 Cabinet on 28th July 2015 gave approval to delegate responsibility for spend against the £2.85m New Council Developments Reserve, to the Director of Resources, to support the effective management of the Council's capacity risks associated with the delivery of a New Council.

The Chair of the New Council Programme Board will make more detailed recommendations to the Executive Team in-year, and through the quarterly monitoring report, report to Cabinet in-year on commitments against this reserve. As at Quarter 1, commitments against the £2.85m total an estimated £200k to date; additional temporary senior management capacity within Commissioning, Adult & Public Health to backfill for existing senior management capacity supporting the cross-Directorate early intervention & prevention theme work.

3. Implications for the Council

- 3.1 The Council Budget Report 2015-18 to full Council on 18 February 2015 includes the use of £27.2m available Council general fund "one-off" balances over the medium term financial plan, and a further £4.4m earmarked reserves, to support the MTFP; £31.6m in total.
- 3.2 The use of available "one-off" balances is part of the medium term budget strategy and is intended to buy the Council time to be able to plan ahead for the scale of continuing budget reductions required over the 2015-18 period.
- 3.3 The updated reserves position of the Council, as at Quarter 1, 2015-16 is shown at Appendix A. The proposed drawdown of £5.6m earmarked reserves in-year to mitigate volume / service pressures reflects the Council's continued approach to the management of budget risk in-year.
- 3.4 While the Council overall general fund position is broadly on line with budget, within the overall forecast position there are a number of

significant in-year pressures being mitigated by a combination of one-off reserves, and external funding contribution through Better Care Funding; the sustainability of the latter beyond 2015-16 subject to future clarification in conjunction with health partners.

In order to ensure that the longer financial position is affordable the council will need to deliver in line with the MTFP. As well as exploring additional service redesign and transformation proposals to bridge the anticipated financial shortfall over the medium term and address the longer term demographic and service volume pressures.

4. Consultees and their opinions

This report has been prepared by the Director of Resources in consultation with the Executive Team.

5. Next steps

Cabinet to consider officer recommendations below.

6. Officer recommendations and reasons

Members are asked to :-

- i) note the forecast position at Quarter 1 for the general fund, housing revenue account and collection fund,
- ii) approve the drawdown of £5.6m from earmarked reserves for volume/service pressures,
- iii) approve the use of £246k Special Educational Needs grant allocation in 2015-16 to support Children & Families Act implementation, managed through Learning & Skills Service,
- iv) approve use of £704k Independent Living Fund, funding transfer from Department of Works & Pensions, to meet transferred client cost commitments, managed through Adults service,
- v) note Director of Resources delegated responsibility to the Chair of new Council Programme Board (Director for Economy & Skills) for overall budget management responsibility of cross-directorate theme related budgeted activity, and
- vi) note £200k commitments to date against the £2.85m New Council Developments Reserve.

7. Cabinet portfolio holder recommendation

The portfolio holders support the officer recommendations.

8. Contact officer and relevant papers

Eamonn Croston, Strategic Council Finance Manager
01484 221000

9. Director responsible

David Smith, Director of Resources
01484 221000

APPENDIX A

CORPORATE REVENUE BUDGET MONITORING 2015/16 - MONTH 3

Directorate	Net Controllable Budget £000s	Forecast Outturn £000s	Variance £000s	Pressures offset by BCF £000s	Pressures offset by Reserves £000s	Adjusted Forecast Outturn £000s	Adjusted Variance £000s	
Children & Young People	61,417	64,814	3,397	0	(2,474)	62,340	923	1.5%
Commissioning, Public Health & Adults	83,325	91,309	7,984	(2,250)	(3,132)	85,927	2,602	3.1%
Place	32,803	35,506	2,703	0	0	35,506	2,703	8.2%
Resources	32,823	32,150	(673)	0	0	32,150	(673)	-2.1%
Communities, Transformation & Change	6,376	6,248	(128)	0	0	6,248	(128)	-2.0%
Cross-Directorate Themes	38,462	38,318	(144)	0	0	38,318	(144)	-0.4%
Sub-total	255,206	268,345	13,139	(2,250)	(5,606)	260,489	5,283	2.1%
Central Budgets - contingencies offsetting Directorate pressures	1,988	0	(1,988)	0	0	0	(1,988)	
	257,194	268,345	11,151	(2,250)	(5,606)	260,489	3,295	
Other Central Budgets	62,260	59,748	8	(2,512)	0	59,748	(2,512)	-4.0%
Public health grant contribution to MTFP	(6,403)	(6,403)	0	0	0	(6,403)	0	0.0%
Sub-Total	313,051	321,690	8,639	(2,250)	(5,606)	313,834	783	0.3%
District Committee managed budgets	1,059	1,059	0	0	0	1,059	0	0.0%
General Fund Total	314,110	322,749	8,639	(2,250)	(5,606)	314,893	783	0.2%

Housing Revenue Account (HRA)

Repairs & Maintenance	24,041	23,525	-516	0	0	23,525	-516	-2.1%
Housing Management	33,239	33,192	-47	0	0	33,192	-47	-0.1%
Other expenditure	28,715	28,557	-158	0	0	28,557	-158	-0.6%
Sub-total 85,995		85,274	-721	0	0	85,274	-721	-0.8%
Income -95,735		-96,029	-294	0	0	-96,029	-294	0.3%
Surplus/deficit for year		-9,740	-10,755	-1,015	0	-10,755	-1,015	10.4%
Planned appropriation to reserves	9,740	10,755	-1,015	0	0	10,755	1,015	

Collection Fund forecast (Council Share)	Council Tax	Business Rates
	£000s	£000s
Actual Opening balance 1 st April 2015	(4,342)	5,234
Planned contribution to/(from) General Fund 2015/16	1,200	(5,200)
In-year forecast	(1,848)	0

Updated reserves position**(Appendix A continued)****GENERAL FUND**

	Reserves as at 1/4/15	Reserves commitments over MTFP period 15-18	Remaining reserves	Comments
	£m	£m	£m	
Statutory	(24.0)	24.0	-	Schools related reserves
Earmarked	(64.4)	64.4	-	Commitments include £5.6m drawdown against in-year pressures
Risk based	(9.0)	-	(9.0)	Contingency reserve
General Reserves (balances)	(38.0)	33.0*	(5.0)	Remaining reserves reflects minimum balances held
Grand Total	(135.4)	121.4	(14.0)	

HOUSING REVENUE ACCOUNT

	Reserves as at 1/4/2015	Reserves commitments over MTFP period 15-18	Remaining reserves	Comments
	£m	£m	£m	
General reserves (1)	(35.8)	34.3	(1.5)	See note (1)
Major Repairs reserve (2)	-			See note (2)
Grand Total	(35.8)	34.3	(1.5)	

Notes

- (1) includes £9m set aside to support strategic HRA Council priorities, £8.5m set aside for business income risks (welfare reforms – direct payments to tenants); £16.8m to support current & longer term HRA capital plan requirements ;£1.5m working balance
- (2) opening balance of nil reflects the fact that there is an in-year contribution from HRA (annual depreciation charge - currently £15.6m) which is then fully committed in-year to support HRA capital plan and pay down HRA debt. Statutorily this reserve cannot be used for any other purpose.

Highlight variances

Appendix B

Directorate	Activity	Highlight Variances (before BCF/ reserves) £000	Better Care Fund (BCF) applied £000	Earmarked Reserves applied £000	Additional comments on Highlight variances (before BCF/reserves applied)
Children & Young People	Safeguarding & family support ; demand led activity	+2,955		(2,006) *	+£993k fostering; +£1,702k external placements (includes £300k less Clinical Commissioning Groups income than expected)
	Disabled Children's Services	+376		(224) *	additional direct payments
	Child Sexual Exploitation Team	+244		(244)	Pressure on CSE Team; to be met from reserves in 15/16;
	Sub-total	+3,575		(2,474)	
Commissioning, Public Health & Adults	Placement equivalent demand	+4,494	(2,250)	(1,900) *	Older People +£600k; Physical Disabilities +£600k; Learning Disabilities +£2.4m; mental health +£900k BCF funding allocation not factored into budget plans
	(Older People) In-house residential	+614			Mainly agency costs re sickness / vacancies
	Best Partnering	+197			Savings not realised
	Deprivation of Liberty safeguards (DOLS)	nil		(41)	DOLS pressure £239k mainly offset by gov't grant £198k, plus balance from reserves
	Public health expenditure	+872			Incl timing issue on sexual health & substance misuse new contracts +£1,156k & £300k staff vacancy offset
	Public Health Income	+1,680		(1,191)	Our current estimate of gov't in-yr PH grant clawback; part offset by 'uncommitted' PH grant reserves (balance of £0.8m PH reserves committed)
	Sub-total	+7,857		(3,132)	
Place	Waste Services	+651			Contract waste/landfill costs; demand led
	Street cleansing	+560			Changes to working practices & employee reductions – slippage on MTFP savings
	PRP –schools transport	+1,103			+£648k Increased volumes of pupils ; +455k slippage on procurement savings
	Capital delivery & development	+234			Incl. reduced income streams, esp. architects
	Sub-total	+2,548		-	
Resources	Customer & exchequer services	(363)			Includes some vacancy mgt and additional recovery of Housing benefit overpayments

Directorate	Activity	Variance (before reserves) £000	Better Care Fund (BCF) applied £000	Earmarked Reserves applied £000	Additional comments on variances
Resources (continued)	Legal & Governance	(209)			Includes (£322k) support for Council as democratic organisation; part offset by Legal +£112k (currently internal trading – under review)
	Sub-total	(572)		-	
CTC	Support services	(150)			HR Professional - vacancies held
	Sub-total	(150)		-	
Cross-Directorate themes	Economic resilience & early intervention & prevention	(144)			
	Sub-total	(144)		-	
	Central budget contingencies used to offset Directorate pressures	(1988)			Base budget set aside as part of approved MTFP to support Directorate pressures (balance of uncommitted Care Act new Burdens gov't grant £1.3m plus £618k supplementary rev support grant allocation)
Central Budgets	Treasury Management	(1,700)			Net effect of £10.5m capital receipt/revenue contribution/capital grant applied to service debt, plus underspend on cap plan.
	Joint committees	(812)			Mainly one-off refund from ITA (combined authority) re previous years contributions not used, plus joint services charge less than expected
	Sub-total	(4,500)	-	-	
	Grand total (highlight variances)	8,614	(2,250)	(5,606)	

*reserves applied here to volumes element of demand led pressures

HRA	Repairs & Maintenance	(516)			Empty homes (£282k) ; responsive repairs (£282k)
	Income	(293)			Mainly lower voids (£173k)
	total (highlight variances)	(893)	-	-	