

Name of meeting: Cabinet
Date: 17th November 2015

Title of report: Corporate Revenue Financial Monitoring Report, Quarter 2, 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, 2 November 2015
Is it signed off by the Director of Resources?	Yes
Is it signed off by the Acting Assistant Director - Legal & Governance?	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 second 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 presents an overall forecast revenue outturn for 2015-16, as at Quarter 2, including commentary on emerging developments and risks.
- 1.3 The report also includes a summary update on Council reserves 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 2 forecast **net underspend position of £992k or -0.3%**, against the **£314.1 m** net controllable revenue budget, as summarised at Appendix A. This represents a favourable shift from the forecast position reported at Quarter one, by £1.8m.
- 2.3 Within the overall forecast, there are net Directorate pressures totalling £9.8m; these include demand led pressures on Adults at £5.1m, Children & Young People at £3.1m, and Waste Services at £0.8m.
- 2.4 The net Directorate pressures are 'net' of £2.2m Better Care Funding applied in-year against Adult Social Care services; £0.9m Older People, £1m Learning Disabilities, £0.3m Contracts and Commissioning.
- 2.5 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.
- 2.6 Elsewhere within Place, schools transport is reflecting a current overspend of £1.1m; this was also acknowledged as part of the formal budget approval process for 2015-18 to be a continuing area of budget risk.
- 2.7 The above pressures have been mitigated in-year partly through Central (contingency) budget set aside to mitigate Directorate pressures, totalling £1.9m.
- 2.8 As previously set out in the Quarter 1 revenue monitoring report to Cabinet on 25 August 2015, 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 and prevention theme work. This is referred to at Appendix A as Cross-Directorate Themes. Appendix B attached gives a more detailed breakdown of the budgeted activity in scope here.
- 2.9 The Quarter 2 projections also include the proposed drawdown of "one-off" earmarked reserves totalling £6.3m, to mitigate both the volume element of demand led pressures, and other service pressures. These are set out in more detail at Appendix C attached.
- 2.10 There is also a balance of £2.5m Central budget forecast underspend; mainly £1.7m Treasury Management, and this reflects the impact of previous Cabinet approvals to apply available capital receipt/grant/revenue funding to service debt.
- 2.11 Appendix C to this report summarises key forecast variances across Directorate and Central budget activity, as at Quarter 2.

COLLECTION FUND

- 2.12 The Collection Fund forecasts here are based on Council shares of Collection Fund income due. There is a forecast in-year surplus of £1.6m on Council tax; equivalent to 1.1% against budget income of £141m; mainly due to council tax income collection performance in excess of targeted.
- 2.13 There is a current £2m in year forecast deficit against business rates income of £51.4m. This is largely due to a review of outstanding backdated appeals currently with the Valuation Office. In addition there is an emerging risk in relation to appeals for Doctor's Surgeries and Virgin Media which if successful could result in a one off cost to Kirklees of £1.1m for backdated payments plus reduced rates income of £300k per annum going forwards.

HOUSING REVENUE ACCOUNT (HRA)

- 2.14 There is a forecast surplus of £3.6m against the ring-fenced HRA; equivalent to 3.8% against annual budgeted turnover (income) of £96m. The most significant variance is (£2.1m) relating to repairs and maintenance; less than anticipated costs on empty homes (£1.1m) and responsive repairs (£0.2m), and reduced volume of planned repairs (£0.8m). 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 2.19).

EMERGING DEVELOPMENTS / RISKS

- 2.15 The Chancellor's budget announcement on 8 July 2015 included the in-year (2015-16) clawback of £200m public health grant nationally. The basis of this cut has been subject to government consultation; the result of which was recently announced as a 6.2% standard rate cut to each Local Authority allocation. For Kirklees, this translates to a grant reduction of £1.645m. This matches our estimates that are factored into the Quarter 2 monitoring projections. It is not yet known whether or not the in-year grant reduction will inform the new baseline grant allocation for future years. This uncertainty is compounded by another consultation to revise the methodology for allocation of Public Health funding for 2016-17.
- 2.16 There is the possibility of central government departments requesting further in-year grant reductions; the Youth Justice Board have recently announced a reduction of Youth Justice Grant paid to Youth Offending Teams of £9m in 2015-16. The impact on Kirklees is a reduction of £66k however due to the timing of the announcement, this is not reflected in quarter 2 monitoring.
- 2.17 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, factored into the MTFP. Current forecasts assume £1.2m of this will not be spent in 2015-16 and this variance is included in the Quarter 2 monitoring position.

- 2.18 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.

- 2.19 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. These, and other welfare reform proposals will be formalised into Welfare & Reform legislation currently being drafted for implementation from 1 April 2016, along with a raft of other housing related proposals to be set out in the forthcoming Housing & Planning Bill.

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 are working closely with lead members to undertake a more wide ranging assessment of the impact and implications for HRA over the medium term, and this will include proposals to be incorporated into the forthcoming HRA medium term financial plan 2016-19.

- 2.20 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.

- 2.21 Other recent Government announcements include proposals for Councils to retain 100% of business rates collected locally - which will have significant implications for future Council funding. The detail of this has yet to be worked up and current indications are that this would not be implemented before 2018-19 at the earliest. Future proposals for regional devolution and the pooling of the existing 89 Local Authority pension funds into half a dozen British Wealth Funds were also announced recently.
- 2.22 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) and detailed funding settlement in December will provide further clarification on Council funding in 2016-17 and future direction of travel across a range of national policy announcements set out in this section.

OTHER

NEW COUNCIL DEVELOPMENTS RESERVE

- 2.23 As at Quarter 2, commitments against the £2.85m total an estimated £805k to date;
- £200k 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.
 - Up to £605k Programme Management Resources within New Council Programme Management Office; Immediate recruitment of a Programme Manager and a Project Officer and recruitment of up to three further Project Managers and four Project Officers for allocation to specific New Council programmes or projects – e.g. aspects of ‘Early Intervention and Prevention’ and ‘Economic Resilience’

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. This approach was re-affirmed in the budget strategy update report 2016-19 to Council on 7 October 2015.
- 3.3 The updated reserves position of the Council, as at Quarter 2, 2015-16 is shown at Appendix A. The proposed drawdown of £6.3m 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 in 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, central contingency budgets and external funding contribution in conjunction with health partners through Better Care Funding (BCF); the Department of Communities and Local Government have recently announced their continuing commitments to BCF in 2016-17.

In order to ensure that the longer financial position is affordable, the council will need to deliver in line with the MTFP which means continuing to explore 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 2 for the general fund, housing revenue account and collection fund,
- ii) note the approved drawdown of £6.3m from earmarked reserves for volume/service pressures,
- iii) note up to £805k 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
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9. Director responsible

David Smith, Director of Resources
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CORPORATE REVENUE BUDGET MONITORING 2015/16 - MONTH 6
Appendix A

Directorate	Net Controllable Budget £000s	Forecast Outturn £000s	Variance £000s	Pressures offset by Reserves £000s	Adjusted Forecast Outturn £000s	Adjusted Variance £000s	%	Variance from Q1 £000s
Children & Young People	60,942	64,800	3,858	(3,036)	61,764	822	1.3%	(101)
Commissioning, Public Health & Adults	84,171	89,596	5,425	(3,219)	86,377	2,206	2.6%	(396)
Place	35,709	37,639	1,930	0	37,639	1,930	5.4%	(773)
Resources	33,603	33,226	(377)	0	33,226	(337)	-1.1%	296
Communities, Transformation & Change	6,522	6,180	(342)	0	6,180	(342)	-5.2%	(214)
Cross-Directorate Themes	36,719	35,996	(723)	0	35,996	(723)	-2.0%	(579)
Sub-total	257,666	267,437	9,771	(6,255)	261,182	3,516	1.4%	(1,767)
Central Budgets - contingencies offsetting Directorate pressures	1,880	0	(1,880)	0	0	(1,880)		108
	259,546	267,437	7,891	(6,255)	261,182	1,636		1,659
Other Central Budgets	59,925	57,443	(2,482)	0	57,443	(2,482)	-4.1%	30
Public health grant contribution to MTFP	(6,403)	(6,403)	0	0	(6,403)	0	0.0%	0
Sub-Total	313,068	318,477	5,409	(6,255)	312,222	(846)	-0.3%	(1,629)
District Committee managed budgets	1,034	888	(146)	0	888	(146)	-14.1%	(146)
General Fund Total	314,102	319,365	5,263	(6,255)	313,110	(992)	-0.3%	(1,775)
Memo Item (HRA)	(9,740)	(13,306)	(3,566)	0	(13,306)	(3,566)	36.6%	(2,551)

Collection Fund forecast (Council Share)	Council Tax £000s	Bus. Rates £000s	Total £000s
Actual Opening balance 1 st April 2015	(4,342)	5,234	892
Planned contribution to/(from) General Fund 2015/16	1,200	(5,200)	(4,000)
In-year forecast	(1,600)	2,000	(400)
Forecast Closing balance 31st March 16	(4,742)	2,034	(2,708)

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 £6.3m 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.

THEMES**Appendix B**

	Net Controllable Budget £000s	Forecast Outturn £000s	Variance £000s	Variance from Q1 £000s
<u>Early Intervention & Prevention</u>				
Access to Services - CSC	1,292	1,145	(147)	(147)
Gateway to care	51	51	0	0
Single Point of Access (104202)	471	438	(33)	(7)
5-19 yrs Public Health	0	0	0	0
Care navigation	806	742	(64)	(70)
child with dis (young people's activity team)	580	579	(1)	(1)
early intervention & targeted support	8,435	7,999	(436)	(284)
early years SEN support	576	576	0	0
Health Trainers	(7)	(7)	0	11
international new arrivals	74	28	(46)	0
Sensory Services	204	222	18	16
Smoking and tobacco	0	0	0	0
Support for Carers	522	425	(97)	(99)
Supporting People	6,109	6,599	490	(124)
young people service	4,277	4,207	(70)	(69)
<u>Social Action</u>	0			
Community Liaison	1,564	1,544	(20)	(29)
Engaging communities & bldg capacity	535	590	55	55
Healthwatch	435	332	(103)	(3)
voluntary sector support	247	229	(18)	(18)
Total Early Intervention & Prevention	26,171	25,699	(472)	(769)
<u>Economic Resilience</u>				
Adult Learning	59	59	0	0
Allotments	35	35	0	0
CCTV	249	229	(20)	0
Comm Safety & ASB	382	348	(34)	(34)
Connexions	283	283	0	0
Creative Economy Support	296	295	(1)	(1)
Events & Concerts	194	194	0	0
Grant to KAL	2,307	2,307	0	0
Kirklees Advice Service	724	724	0	0
Kirklees Benefits Service	606	684	78	78
Lawrence Batley	267	267	0	0
Museums & Galleries	1,103	1,103	0	0
Nutrition Initiatives	0	0	0	0
PCSO's	636	416	(220)	0
Physical Activity	0	0	0	0
School Crossing Patrols	350	280	(70)	10
Sport & Physical Activity	504	482	(22)	(1)
Strategic Regeneration	467	655	188	188
Uniformed staff	1,150	1,000	(150)	(50)
Total Economic Resilience	9,612	9,361	(251)	190
Total EIP and ER	35,783	35,060	(723)	(579)
<i>Memo Item</i>				
<i>ER new offer (reshaped services)</i>	<i>441</i>	<i>441</i>	<i>0</i>	<i>0</i>
<i>EIP new offer (reshaped services)</i>	<i>495</i>	<i>495</i>	<i>0</i>	<i>0</i>
Themes Total	36,719	35,996	(723)	(579)

HIGHLIGHT VARIANCES

Appendix C

Directorate	Activity	Highlight Variances (before reserves) £000	Earmarked Reserves applied £000	Additional comments on Highlight variances (before BCF/reserves applied)
Children & Young People	Safeguarding & family support; demand led activity	+3,059	(2,792)*	+£1035k fostering; +£1,651k external placements (includes £300k less Clinical Commissioning Groups income than expected)
	Disabled Children's Services	+316		+£269k Direct Payments, +£142k Short Breaks
	Child Sexual Exploitation Team	+244	(244)	Additional costs arising from CSE; to be met from reserves in 15/16
	Safeguarding & family support; Legal Costs	+400		Overspend on external Legal costs
	Sub-total	+4,019	(3,036)	
Commissioning, Public Health & Adults	Placement equivalent demand	+5,078	(2,164)*	+£0.8m Older People; +£0.5m Physical Disabilities; +£2.8m Learning Disabilities; +£1m mental health. BCF funding allocation not factored into budget plans
	(Older People) In-house residential	+606		Mainly agency costs re sickness/ vacancies
	Best Partnering	+197		Savings not realised
	Public health expenditure	+492		Includes timing issue on sexual health & substance misuse new contracts +£1,129k and (£233k) staff vacancies
	Public Health Income	+1,648	(1,055)	Our current estimate of government in-year PH grant clawback; part offset by 'uncommitted' PH grant reserves (balance of £0.9m PH reserves committed)
	Sub-total	+8,021	(3,219)	
Place	Waste Services	+844		Contract waste/landfill costs; demand led
	Cleansing	+755		Changes to working practices & employee reductions – slippage on MTFP savings
	Parking	+250		Delayed to Feb 16 - +£133k Residents Permits, +£218k moving Traffic Enforcement. Part offset by vacancy savings (£83k).
	Schools Transport	+1,103		Including +£770k Increased volumes of pupils; +£253k slippage on procurement savings.
	Schools Facilities Management	(374)		Mainly catering saving due to increased efficiency on labour and food costs of supplying Universal Free School Meals.
	Sub-total	+2,578	-	

HIGHLIGHT VARIANCES

Appendix C / continued

Directorate	Activity	Variance (before reserves) £000	Earmarked Reserves applied £000	Additional comments on variances
Resources	Customer & exchequer services	(295)		Includes some vacancy management and additional recovery of Housing benefit overpayments. (£146k) relating to KD.
	Legal & Governance	(183)		Includes (£295k) support for Council as democratic organisation; part offset by +£112k Legal
	Corporate & Democratic Core	(154)		(£72k) DRM, (£82k) Corporate Management – including (£71k) External Audit Fee.
	IT	289		Largely additional coverage of IT system costs
	Sub-total	(343)	-	
CTC	Support services	(244)		(£154k) Communications and Marketing additional income and staffing savings, (£90k) HR Professional vacancies held
	Communities & Leisure	(220)		Includes (£121k) Organisational change service redesign - savings achieved early, (£102k) Healthwatch savings made ahead of likely grant reduction 16-17.
	Sub-total	(464)	-	
Cross-Directorate themes	Economic resilience & early intervention & prevention	(722)		(£471k) EIP, (£251k) ER
	Sub-total	(722)	-	
	Central budget contingencies used to offset Directorate pressures	(1,880)		£1.2m Base budget set aside as part of approved MTFP to support Directorate pressures (balance of uncommitted Care Act new Burdens gov't grant) plus £618k supplementary revenue support grant allocation
Central Budgets	Treasury Management	(1,750)		Net effect of £10.5m capital receipt/revenue contribution/capital grant applied to service debt, plus underspend on capital plan.
	Joint committees	(755)		Mainly one-off refund from ITA (combined authority) re previous years contributions not used, plus joint services charge less than expected
	Sub-total	(4,385)	-	
District Committee Managed Budgets	CTC Activity Budgets	(146)		Slippage into future years
	Grand total (highlight variances)	8,558	(6,255)	

HIGHLIGHT VARIANCES***Appendix C / continued***

Directorate	Activity	Variance (before reserves) £000	Earmarked Reserves applied £000	Additional comments on variances
HRA	Repairs & Maintenance	(2,110)		(£0.8m) planned repairs reduction in volume of work, (£1.1m) empty homes; (£0.2m) responsive repairs
	Housing Management	(852)		Includes (£453k) reduced projection in PFI in line with reductions in unitary charges, (£336k) temporary accommodation savings due to late implementation of Universal credit
	Other	(251)		Mainly (£255k) reduced bad debt provision due to delayed implementation of Welfare reform
	Income	(353)		(£231k) Lower voids and (£208k) leaseholder charges, part offset by District heating Income and other rents.
	total (highlight variances)	(3,566)	-	