

Name of meeting: Corporate Scrutiny Panel
Date: 31 August 2018
Title of report: Financial Management Update 2018-19

Purpose of report

High level overview of the Council's financial monitoring, incorporating the current position in 2018-19, and update on preparation for the forthcoming budget strategy update report to Cabinet/Council early/mid-October.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	Not applicable
The Decision - Is it eligible for call in by Scrutiny?	Not applicable
Date signed off by Strategic Director & name	Rachel Spencer-Henshall
Is it also signed off by the Service Director for Finance IT and Transactional Services?	Not applicable
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	Not applicable
Cabinet member portfolio	Councillor Graham Turner

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: Public

1. Summary

Current year financial monitoring position; 2018-19

Outturn position 2017-18

- 1.1. The Council's financial outturn position for 2017-18 reported an overall general fund revenue underspend of £1.6m against a budget of £295m; equivalent to 0.6% variance. Planned delivery of £54m savings in-year largely achieved; £48m sustainable savings delivered, equivalent to 89%, plus other 'unplanned' savings of just under £8m.

Revenue Rollover of £1.6m approved at Council on 11 July to support place based public realm works. Cabinet to consider detailed proposals in due course. Housing Revenue Account delivered 'on budget'; included delivery of £2.6m efficiency savings in-year.

- 1.2. Collection fund, which separately accounts for council tax and business rates income, overall in-year financial performance against £207m budgeted income, reflected a relatively modest in-year surplus of £0.9m; equivalent to 0.4%.
- 1.3. Capital spend in-year of £62m against headroom plan of £121m. Budgeted funding commitment of £99m; acknowledges the nature of capital investment programmes that there will be some slippage in year. Slippage against headroom plan mostly rolled forward into capital forward plans, including just over £3m additional investment in Council digital transformation.

Financial Monitoring as at Quarter 1; 2018-19

Revenue

- 1.4. Appendix 1 attached sets out the overall forecast position across key general fund revenue activity, as at Quarter 1. The general fund net revenue budget is **£292m**, and includes **£16m** planned savings in-year, in order to deliver to this budget.

Forecast spend as at quarter 1 projects an overspend of **£4.4m** (equivalent to just **1.5%** of net budget). This includes projected delivery of 14m or 86% against planned savings in-year, plus other net overspends of £2m.

Quarter one monitoring tends to be quite prudent, and it is expected that Strategic Directors, through the remainder of the year, work to identify opportunities for spending plans to be collectively brought back in line within the Council's overall budget by year end.

- 1.5. In-year Collection Fund performance currently on-line with budget.
- 1.6. The Housing Revenue Account is projecting a **small deficit of £293k** (equivalent to just **0.3%**) against annual turnover of **£91m**.
- 1.7. The most significant underlying pressure on general fund budget reported in-year is against Special Educational Needs & Disabilities activity within Learning and Skills, at £6.4m. This compares to an underlying pressure of £4.2m reported as part of the 2017-18 financial outturn report.

There is external funding from Government to pay for these services, through the High Needs block of the Dedicated Schools Grant. However, spend pressures on service are in excess of the grant funding available in 2018-19.

- 1.8. The breakdown of the underlying overspend includes £3.7m in respect of children's placements in independent specialist provision outside the authority (an increase in 44% over 2 years from 88 to 126 placements), and likewise in other local authority specialist provision (from 20 to 28 placements over the same period).

Further pressures include £1.6m for support funding payments for high needs students in the further education sector, and £1.1m top up funding to support rising numbers of increasingly complex need children within the mainstream schools sector.

- 1.9. The annual revenue budget also includes £9m revenue resources within the treasury management budget, 'freed up' over a ten year period, as a result of a treasury management policy change to reduce the annual amount required to be set aside to support ongoing debt commitments.

As per the Council approved reserves strategy, these resources are intended to be deployed in a way that support medium to longer term organisational flexibility and financial resilience. It is intended to deploy £5m in-year specifically to mitigate high needs pressures; the remaining £4m to transfer to reserves.

- 1.10. Cabinet on 21 August also approved proposals to commit a further "one-off" £2.8m additional resource for Social Care Investment & Transformation; the resource made up from anticipated £1.6m gain for being part of the Leeds City Region 100% business rates pool pilot in 2018/19, and a further £1.2m additional one-off grant from Government for Adult Social Care.

Capital

- 1.11. The overall Capital Plan forecast as at Quarter 1 is summarised below :

By Category	Revised Budget £000	Actuals to date £000	Annual forecast £000	Variance £000
Strategic Priorities	31,202	2,453	22,867	(8,335)
Baseline	59,801	5,608	54,994	(4,807)
Risks & Pressures	1,000	0	0	(1,000)
General Fund	92,003	8,061	77,861	(14,142)
Strategic Priorities	13,459	53	9,208	(4,251)
Baseline	18,478	(131)	18,249	(229)
Housing Revenue Account	31,937	(78)	27,457	(4,480)
Total	123,940	7,983	105,318	(18,622)
Funding Slippage – Borrowing*	(14,822)	-	-	14,822
Funding Slippage – Grants*	(7,447)	-	-	7,447
Overall Funding Requirement	101,671	7,983	105,318	3,647

* Relates to General Fund only

- 1.12. Quarter one projections for capital spend have been quite optimistic in previous years, and it is anticipated that as the year progresses, revised projections will come in at below the budgeted funding commitment for capital in 2018-19.

Revenue Reserves

- 1.13. The Table below summarises the Council's general fund revenue reserves position as at Quarter 1 monitoring :

	As at 1 April 2018	Planned movement in-year	Unplanned movement in-year	Forecast reserves 31 March 2018
	£m	£m	£m	£m
Statutory (schools)	(9.8)	-	-	(9.8)
Earmarked :				
<i>Financial resilience</i>	(37.1)	(4.1)	4.4*	(36.8)
<i>Other</i>	(33.0)	0.7	-	(32.3)
Total earmarked	(70.1)	(3.4)	4.4	(69.1)
General Balances	(8.8)	1.6	-	(7.2)
Grand Total	(88.7)	(1.8)	4.4	(86.1)

*forecast year end overspend

- 1.14. It is expected that the forecast overspend transfer to reserves at year end as above, will reduce over subsequent quarterly monitoring periods, in line with strategic director plans to bring spend in line with budget over the remainder of the year.

- 1.15. HRA revenue reserves at the start of the year were £60.5m, and are forecast to be £48m by year end; reflects planned drawdown of £12m in-year to support approved capital investment plans in-year.

2. Budget Strategy Update – annual re-fresh of the medium term financial plan (MTFP)

- 2.1. The annual re-fresh of the medium term financial plan or MTFP will set out the financial planning framework or forecast resources available over the Council's forward plans. This in turn will inform consideration of budget proposals through the remainder of the budget round, to deliver a 'balanced budget' requirement in 2019-20 and following years.

- 2.2. The financial planning framework underpinning the forthcoming budget strategy update report to Cabinet/Council (see Appendix 2 – high level budget timetable), will take into account the following:

- i. a review of 2017-18 financial outturn performance,
- ii. current year 2018-19 performance,
- iii. key emerging, unfunded pressures e.g. High Needs,
- iv. demographic and other key service pressures over the medium term,
- v. general price inflation, interest rates, pay award, national living wage impacts

- vi. review of existing planned savings over the 2018-20 period (£16m current year and further £13m planned for 19-20),
- vii. early review of further investment considerations (revenue and capital), and treasury management affordability envelope,
- viii. profiling/review of the corporate capital plan, and
- ix. key Council priorities over the period, informed by emerging strategies and plans

2.3. On the funding side, the following will be reviewed and incorporated as appropriate:

- i. Council tax base – likely growth over the medium term, and forecast annual council tax increases; informed by current year performance, Government council tax increase threshold limits, and any relevant Council strategies and plans.
- ii. Potential Leeds City Region 75% business rate pool pilot bid for 2019/20; anticipated one-off revenue resource gains for 2019-20 and anticipated bid success
- iii. Business Rates Retention Scheme – informed by current year performance, appeals volatility, likelihood of continuing Government austerity measures for local government beyond 2020, likely impact of national rollout of 75% business rates scheme from 2020; impact of Fair Funding Review from 2020 and potential re-distribution of existing business rates between Councils ; potential winners and losers; strength of local economy over the medium term
- iv. Impact of 2019/20 Government financial settlement –anticipated to be marginal
- v. Grant funding - National Funding Formula and High Needs Block ; likelihood of any additional adult social care funding; impact of social care green paper; other grant funding e.g. new Homes Bonus and will Government change the methodology
- vi. Opportunities for generating other income at a local level e.g. through fees and charges or investment income opportunities; potential regional and national funding opportunities

2.4. There is continued uncertainty on the national funding landscape for local government. Beyond 2020, against a current backdrop of post-Brexit uncertainty, and the anticipated Spending Review sometime during 2019.

2.5. There is also current national scrutiny and concern on the general state of Council finances, sectoral financial sustainability and financial resilience over the medium term; in particular with regard to Councils with statutory responsibility for children and adult services.

2.6. The budget strategy update will also incorporate a range of modelled financial planning framework scenarios, in contrast to previous years, to reflect the extent of budget risk uncertainty/volatility affecting Councils like Kirklees, over the medium term.

2.7. The above approach, alongside an updated corporate risk register, will set out the financial context and scale of potential budget risk over the Council's forward plans, which will also help inform consideration of current and future reserves requirements going forward.

2.8. Budget assumptions underpinning the updated financial planning framework to be presented to Cabinet/Council in October, will continue to be reviewed and refined through the remainder of the current budget round, alongside emerging budget proposals for member consideration in due course.

2.9. Appendix 2ii) attached also sets out suggested financial management topics for scrutiny panel consideration for the remainder of the municipal year.

2. **Information required to take a decision**

Not applicable – for information only.

3. **Implications for the Council**

Not applicable – for information only.

3.1 **Early Intervention and Prevention (EIP)**

3.2 **Economic Resilience (ER)**

3.3 **Improving Outcomes for Children**

3.4 **Reducing demand of services**

3.5 **Other (eg Legal/Financial or Human Resources)**

4. **Consultees and their opinions**

Not applicable.

5. **Next steps**

The budget strategy update report will be considered by Cabinet/Council early/mid-October.

6. **Officer recommendations and reasons**

Corporate Scrutiny Panel is asked to:

- Consider and note the information set out in this report;
- Outline comments as appropriate for consideration by Cabinet/ Council when they consider the budget strategy update report in early/mid-October;
- Approve the suggested topics for consideration by the Panel as part of their role in scrutinising the Council's financial program, as set out at Appendix 2 ii).

7. **Cabinet portfolio holder's recommendations**

Not applicable

8. **Contact officer**

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9. **Background Papers and History of Decisions**

Not applicable

10. **Service Director responsible**

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Corporate Revenue Budget Monitoring 2018/19 – Month 3

	Year To Date			Annual				
Strategic Director portfolio responsibilities	Controllable Budget (Net)	Actuals	Variance	Controllable Budget (Net)	Planned use of reserves	Revised Budget	Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Child Protection & Family Support	15,245	14,428	(817)	58,569	-	58,569	59,607	1,038
Learning , Early Support & Schools	7,872	10,274	2,402	17,656	-	17,656	24,121	6,465
Sub Total (Children & families)	23,117	24,702	1,585	76,225	-	76,225	83,728	7,503
Adults Social Care Operations	11,241	14,253	3,012	41,282	-	41,282	41,251	(31)
Policy, Intelligence & Public Health	5,742	6,108	366	(2,591)	898	(1,693)	(1,695)	(2)
Commissioning, Quality & Performance	12,468	15,154	2,686	56,490		56,490	56,734	244
Integration, Access & Community Plus	1,702	2,013	311	8,515	235	8,750	8,535	(215)
Sub Total (Adults & health)	31,153	37,528	6,375	103,696	1,133	104,829	104,825	(4)
Economy, Regeneration & Culture	1,554	1,483	(71)	9,118	1,354	10,472	10,401	(71)
Commercial, Regulatory & Operational Services	1,946	2,816	870	31,165	(37)	31,128	33,295	2,167
Sub Total (Economy & Infrastructure)	3,500	4,299	799	40,283	1,317	41,600	43,696	2,096
Finance & Transactional Services	21,057	20,931	(126)	19,353		19,353	19,229	(124)
Governance & Commissioning	519	595	76	1,930		1,930	2,007	77
Corporate Services	818	1,519	701	7,494	2,664	10,158	9,979	(179)
Sub-Total (Corporate Services)	22,394	23,045	651	28,777	2,664	31,441	31,215	(226)
Central Budgets	7,217	7,174	(43)	42,246	(4,100)	38,146	33,146	(5,000)
General Fund Total	87,381	96,748	9,367	291,227	1,014	292,241	296,610	4,369

KEY BUDGET TIMETABLE MILESTONES

DATE	MILESTONE
2 Oct / 10 Oct 18	Budget Strategy Update Report Cabinet / Council
November 18	Government Autumn Budget
Mid-Dec 18	Provisional Financial Settlement 2019-20
Late Jan 19	Final Financial Settlement 2019-20
End Jan 19	Annual Budget Report - Cabinet
Early Feb 19	Opposition party motion amendments
Mid-Feb 19	Annual Budget Report - Council
2019	Government Spending Review

APPENDIX 2 ii)

Corporate Scrutiny date	Suggested Topics
11/10/18	Further review of MTFP - headline assumptions / financial resilience / budget risk
29/11/18	Financial Management Update - current monitoring/ budget update
17/1/18	Provisional financial settlement / Autumn Budget/Story so far
1/3/19	Links to service plans and performance
12/4/19	End of year summary /start of next year monitoring Plan; include link to corporate plans and service plans & budgets