



## CABINET – 27TH JULY 2016

**SUBJECT: PROVISIONAL OUTTURN FOR 2015/16**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND S151 OFFICER**

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### 1. PURPOSE OF REPORT

- 1.1 To provide Cabinet with details of the provisional outturn for the 2015/16 financial year prior to the annual audit by the Authority's External Auditors Grant Thornton.

### 2. SUMMARY

- 2.1 In advance of the Statement of Accounts being audited and presented to Council on the 28<sup>th</sup> September 2016, this report provides an overview of the Council's performance against the budget for the 2015/16 financial year. Members receive detailed budget monitoring reports as part of the Scrutiny process throughout the financial year.

### 3. LINKS TO STRATEGY

- 3.1 The Provisional Outturn Report encompasses all the resources used by the Council to achieve its strategies.

### 4. THE REPORT

- 4.1 The outturn position is attached as Appendix A and is summarised below:-

	£m
Service Directorate Underspends	6.101
Miscellaneous Finance Underspends	2.638
Council Tax Surplus	1.430
Housing Revenue Account (HRA) Underspend	6.762
Schools Overspend	(0.171)
<b>Total: -</b>	<b>16.760</b>

- 4.2 The Service Directorate underspend of £6.101m represents 3.45% of net Directorate budgets. During the year Officers have continued to be mindful of the continuing programme of austerity and expenditure has been curtailed in a number of areas to support the Medium-Term Financial Plan (MTFP). This prudent approach has resulted in a number of savings being achieved in advance and underspends being higher than would normally be the case.
- 4.3 After adjusting for earmarked reserves, 50% of underspends are carried forward by Directorates and are available to meet the requirements of these service areas. The remaining balance is transferred to the General Fund. Overspends are normally funded from

future Directorate budgets or balances brought forward from previous years. Service reserves held by Directorates can be used to fund one-off cost pressures or to pump-prime service reconfiguration but they cannot be relied upon to deliver balanced budgets on a recurring basis.

- 4.4 The table in Appendix B shows the movements on the General Fund balance from the 1<sup>st</sup> April 2015 to the 31<sup>st</sup> March 2016 along with agreed commitments for 2016/17. The appendix also includes details of proposals to utilise General Fund balances to fund an additional provision in relation to the ongoing investigation of senior officers and a further contribution to the City Deal. These proposals total £562k, and at the time of writing this report, were subject to agreement by Council at its meeting on the 19<sup>th</sup> July 2016.
- 4.5 The forecast General Fund balance as reported to Council on 24<sup>th</sup> February 2016 was £10.105m. The updated position is a projected balance as at 31/03/17 of £11.155m, a variance of £1.050m. The variations to the forecast are as follows: -

	£m
Increased Contribution from Service Areas (including Miscellaneous Finance)	1.596
2015/16 Council Tax Surplus	0.016
Proposed take from General Fund (Council 19/07/16)	(0.562)
<b>Net Increase: -</b>	<b>1.050</b>

- 4.6 The Acting Director of Corporate Services & Section 151 Officer normally recommends a minimum General Fund balance of £10m (circa 3% of the net revenue budget). However, in light of the significant financial challenges that lie ahead it would be prudent to retain the General Fund balance at the projected level of £11.155m. This will provide a small buffer to support the delivery of the MTFP in future years in respect of pump-priming and Invest to Save schemes. Once the provisional financial settlement and indicative allocations have been announced by the Welsh Government in October 2016, this situation could be revisited but at the present time there is uncertainty in respect of the Revenue Support Grant (RSG) and other grant funding for 2017/18 and future years.
- 4.7 The following paragraphs comment on the 2015/16 underspends as detailed in Appendix A.

**Education and Lifelong Learning (£1.419m Underspend)**

- 4.8 Overall the Directorate (including schools) is reporting an underspend of £1.419m. This includes an overspend of £171k for schools, which necessitated a take from earmarked school balances, and a net underspend on Central Education & Lifelong Learning of £1.590m.
- 4.9 The significant variances (over £100k) against budgets are as follows: -

	(Over)/ Under £000's
Prior-Year Accruals	483
Home to School/College Transport	251
Psychology Service	106
Behaviour Support	(227)
Additional Support/Out-of-County Charges	242
EOTAS (Education Other Than At School)	(163)
Community Education (Adult & Youth)	105

- 4.10 The £483k release of prior-year accruals arises from a review of balances and the identification of sums that no longer need to be held to meet anticipated financial commitments identified in previous financial years.

- 4.11 The Transport budget, which is managed by the Engineering Division in the Environment Directorate (with variances ring-fenced to Education), has reported a £251k underspend on its core budget. This is positive news and consistent with the £250k MTFP contract efficiency saving agreed for 2016/17. However, transport expenditure can be volatile due to variations in demand and the budget will need to be closely monitored during the 2016/17 financial year to ensure that contract efficiencies are achieved.
- 4.12 The Psychology Service underspend of £106k is the direct consequence of a number of in-year vacancies. This is a one-off saving as the service is progressing recruitment with regards to these posts due to the recognised demands on the service.
- 4.13 The overspend of £227k on the Behaviour Support budget has been reported in-year and is due to a planned investment in Behaviour Support training across Primary and Secondary schools. In 2015/16 an additional amount of £225k has been spent to address behavioural issues that are giving rise to increasing cost pressures across Additional Support, EOTAS (Education Other Than At Schools) and an increase in potential Tribunal cases. This one-off investment, which commenced at the end of 2014/15, will run a little way into 2016/17 and is essential to support MTFP savings targets moving forward.
- 4.14 The spend on Additional Support (Primary & Secondary) for pupils in mainstream schools increased during the 2015/16 financial year. This has been a consistent trend in recent years and is closely linked to an increase in Statements around ASD (Autistic Spectrum Disorder). However, this cost pressure is off-set by a reduced spend on the more expensive (daily or residential) Out-of-County Placements. Collectively, spend in this area has resulted in a net in-year underspend of £242k. The 2016/17 budget includes a net savings target of £194k for these service areas.
- 4.15 The overspend of £163k for EOTAS (Education Other Than At Schools) has been anticipated throughout the financial year. This service accommodates learners who are unable to attend and learn through mainstream school and the service has experienced a recent increase in referrals for children with challenging behaviour.
- 4.16 The underspend of £105k within the Community Education budget relates to a number of variances across the service. The most notable relate to in-year savings on staffing costs, an underspend on premises costs and additional income generation (including grant income). In 2016/17 the MTFP savings target for this service area totals £137k.
- 4.17 Additional income received in-year, in-year vacancies and other savings in advance linked to the Directorate's MTFP have also contributed significantly to the overall 2015/16 underspend for the Directorate.

#### **Social Services (£1.547m Underspend)**

- 4.18 The overall outturn position in respect of Social Services for 2015/16 is an underspend of £1.547m. £59k of this underspend relates to the Integrated Transport Unit (ITU) within the Environment Directorate and arises from more efficient practices in respect of the transport of Looked After Children. The remaining underspend of £1.488m relates to budgets managed solely within the Directorate of Social Services.
- 4.19 £673k of the underspend can be attributed to vacancies within the Management, Fieldwork and Administrative structures across the Directorate. Much of this underspend has been achieved in preparation for the £663k savings requirements that will need to be delivered through structural reviews in 2016/17.
- 4.20 An underspend of £210k was experienced in respect of Day Services. Much of this is due to savings in advance arising from the early implementation of changes following a review of Day Service provision.

- 4.21 A further £679k of the 2015/16 underspend is due to variations in demand for some service areas. This has enabled the Directorate to minimise the impact of savings requirements for the 2016/17 financial year by allowing budgets to be realigned to the actual spending and demand levels experienced in 2015/16.
- 4.22 Underspends in respect of Minor Works of Adaptation (£121k), the Gwent Frailty Partnership (£195k), Mental Health Services (£140k) and the Blaenau Gwent & Caerphilly Workforce Development Team (£21k) also contributed to the overall Directorate underspend. These services are provided in partnership with other stakeholders and the Directorate's financial contribution towards these services is strongly influenced by the actions of those stakeholders.
- 4.23 The underspends set out above were partially offset by an overspend of £373k in respect of Supporting People, which was due to a cut in the Welsh Government specific grant announced after the budget for 2015/16 had been agreed. A number of measures have now been implemented to ensure that a balanced budget will be achieved for Supporting People in the 2016/17 financial year.
- 4.24 Much of the underspend for the Social Services Directorate had been forecast at an early stage. As a result, a revenue contribution towards the capital cost of installing solar panels in a number of the Authority's residential homes was agreed at a cost of £280k. This investment will reduce the carbon footprint of the Authority and deliver future savings in respect of energy costs.
- 4.25 The net position on all other Social Services budgets is an underspend of £102k.

#### **Environment (£1.791m Underspend)**

- 4.26 The overall outturn position for the Environment Directorate after the approved use of reserves is an underspend of £1.791m. This underspend does not include a ring-fenced under spend of £59k in relation to Social Services Transport and a ring-fenced underspend of £251k in relation to Home to School Transport. These variations are included in the Social Services and Education & Lifelong Learning Directorates outturn positions respectively.
- 4.27 The Regeneration & Planning Division is reporting an overall underspend of £212k. This includes a £179k underspend in Economic Development primarily due to vacant posts in Business Enterprise Support and Business Urban Renewal, and increased income generation at tourism venues and tourism events. These underspends are partly off-set by overspends arising from income targets for Industrial Properties and Bargoed Unit Shops not being achieved due to under occupancy. Planning has reported an underspend of £33k due to savings on vacant posts that have been partially offset by overall net fee income being lower than budgeted.
- 4.28 The Engineering Division is reporting a net underspend of £576k (excluding the underspends noted above in relation to Social Services Transport (£59k) and Home to School Transport (£251k)). An overspend of £245k in relation to Highway General Road Maintenance and Flood & Drainage works is offset by an underspend in relation to Winter Maintenance (£381k) due to the mild winter. There is an underspend of £152k in Street Lighting due to the ongoing investment in energy efficient LED lights and low energy prices. In addition, there are underspends in Transport Engineering (£65k), Passenger Transport (£56k), Engineering Projects Group (£16k) and General Engineering Support (£36k). These underspends are due to a combination of vacant posts, reduced operational costs and increased fee income. Network Contract Services (NCS) reported a net cash surplus of £115k.
- 4.29 The Public Protection Division is reporting an overall underspend of £480k. The most significant underspends are in Trading Standards, Licensing and Community Safety (£95k), Environmental Health (£144k) and Catering (£189k). The underspends in Trading Standards, Licensing and Community Safety and also Environmental Health were primarily due to vacant posts and maternity leave. The underspend in Catering was mainly due to higher than

budgeted income from schools as a result of the high take-up of school meals and reduced numbers of lost school days for severe winter weather etc.

- 4.30 The Community & Leisure Division has reported a net overall underspend of £523k, however this includes a £490k underspend in relation to Cemeteries, which is ring-fenced for future investment in Council Cemeteries provision. Excluding Cemeteries there is a net underspend of £33k. The underspend on Cemeteries arises from price increases previously agreed following a Task & Finish Group review of the service. These price increases have now been factored into the 2016/17 budget to support the MTFP.
- 4.31 There is an overspend of £641k in relation to dry recycling due to higher than budgeted treatment costs arising from changes in contractors. There is also additional one-off expenditure of £247k linked to the recycling of bottom ash at the Viridor facility to help assist the Council in increasing its recycling targets. There was a net overspend on residual waste treatment/disposal of £329k due to close down periods at the Viridor facility during the interim contract period and rejected dry recyclables that had to be diverted to Viridor. Residual waste and dry recycling treatment/disposal overspends were offset by underspends in other areas of the service such as Civic Amenity sites, waste collection and HQ staffing. Parks services (excluding Cemeteries) reported a small £43k overspend and Leisure Services a £20k underspend.
- 4.32 The frontline trading operations of Building Cleaning and Vehicle Maintenance & Fleet Management reported cash surpluses of £74k and £78k respectively.

#### **Corporate Services – (£1.173m Underspend)**

- 4.33 The final outturn position for the Directorate of Corporate Services is an underspend of £1.173m, the most significant elements of which are the following: -
- Corporate Finance is reporting an overall underspend of £421k. This relates in the main to delays in appointing to vacant posts, vacancies that have been held to support MTFP savings requirements for the 2016/17 financial year and additional one-off grant funding.
  - Legal & Governance is reporting an underspend of £195k due to delays in filling posts and withholding vacancies to support MTFP savings requirements for 2016/17.
  - Procurement is reporting an underspend of £102k which again is due in the main to vacancies that have been held to support MTFP savings requirements for the 2016/17 financial year.
  - Performance & Property is reporting a net underspend of £86k. The main underspends are on Corporate Buildings and reduced planned maintenance spend. Building Consultancy also reported additional fee income during the 2015/16 financial year.
  - For Human Resources and Health & Safety there is a combined underspend of £319k again due in the main to vacancies being held to support the MTFP. An element of the underspend is also due to vacancies within the Occupational Health Section but these are now in the process of being filled.
  - Other budgets within Corporate Services are showing a net underspend of £50k.

#### **Miscellaneous Finance - (£2.638m Underspend)**

- 4.34 Budgets in Miscellaneous Finance underspent by £2.638m, the most significant element of which was an underspend of £2.113m on Capital Financing budgets due to the following:-
- Changes to debt pooling arising from the Housing Revenue Account Subsidy (HRAS) buy-out. This saving has now been factored into the budget for the 2016/17 financial year.

- A 0.5% reduction in the assumed borrowing rate moving forward.
- Lower Minimum Revenue Provision (MRP) due to the Capital Financing Requirement (CFR) being lower than originally anticipated.
- Improved returns on investments.

### **Council Tax Collection – (£1.430m Surplus)**

- 4.35 This represents an increase of £230k above the assumed level of £1.2m for the 2015/16 financial year. The budget for 2016/17 now assumes a £1.4m Council Tax surplus.

### **Housing Revenue Account (£6.762m Underspend)**

- 4.36 £1.9m of the Housing Revenue Account (HRA) underspend is in Capital Financing Recharges due to the Minimum Revenue Provision (MRP) on the HRAS buy-out not being required in its first year.
- 4.37 £2.4m of the underspend is in the Building Maintenance budget, in particular the non-DLO budget, which was not fully utilised due to the in-house response team undertaking more work directly rather than needing support from external contractors. A further underspend of £2m is reported on non-pay budgets including Housing Response, Bad Debt Provision and provision for office relocation.
- 4.38 £229k of the HRA underspend is due to salary savings, mainly from the turnover of staff.
- 4.39 The HRA allowed for some £13.4m of revenue contributions towards the WHQS Programme during the 2015/16 financial year and this was fully allocated. A further £7.9m was required from HRA working balances.
- 4.40 HRA Working Balances stand at £19.8m at the end of 2015/16 (subject to external audit). The majority of this funding is earmarked for the WHQS Programme.

### **Housing Revenue Account (HRA) Capital**

- 4.41 Total expenditure on the WHQS Capital Programme for 2015/16 was £28.6m. This expenditure was funded from the £7.3m Major Repairs Allowance (MRA) received from the Welsh Government and revenue contributions from the HRA of £21.3m. No borrowing has been undertaken as yet for the WHQS Programme.
- 4.42 There were 31 Right to Buy sales during the year resulting in a useable capital receipt of £463k.

### **General Fund Capital Programme**

- 4.43 The General Fund Capital Programme for 2015/16 resulted in targeted spend available of £54.9m after including all in-year grant allocations and Section 106 monies. An amount of £22.7m remains unspent at the financial year-end, the majority of which represents slippage that will be carried forward into the 2016/17 financial year. The most significant areas of slippage relate to Education and the 21<sup>st</sup> Century Schools Programme (£8.8m), the Engineering Division (£3.8m), Community and Leisure Services related schemes (£2.4m), Land Reclamation (£1.9m), and Private Housing (£1.8m).
- 4.44 The 2015/16 Capital Outturn Report will be presented to the Policy & Resources Scrutiny Committee on the 4<sup>th</sup> October 2016 and Cabinet on the 19<sup>th</sup> October 2016.

## **General Usable Service Reserves**

- 4.45 As outlined in paragraph 4.3, after adjusting for earmarked reserves 50% of underspends are carried forward by Directorates and are available to meet the requirements of these service areas in subsequent financial years. The table below provides a summary of the reserves arising from cumulative Directorate underspends along with projected balances after taking account of the current approved use of reserves for 2016/17: -

<b>Service Area</b>	<b>Opening Balance (01/04/15) £m</b>	<b>In-Year Movement 2015/16 £m</b>	<b>Closing Balance (31/03/16) £m</b>	<b>Approved Use Of Reserves £m</b>	<b>Projected Balance (31/03/17) £m</b>
<b>Education &amp; LL</b>	<b>1.878</b>	0.581	<b>2.459</b>	(1.293)	<b>1.166</b>
<b>Social Services</b>	<b>3.392</b>	(0.263)	<b>3.129</b>	0	<b>3.129</b>
<b>Environment</b>	<b>0.624</b>	(0.144)	<b>0.480</b>	0	<b>0.480</b>
<b>Corporate Services</b>	<b>1.368</b>	0.580	<b>1.948</b>	0	<b>1.948</b>
<b>Totals: -</b>	<b>7.262</b>	<b>0.754</b>	<b>8.016</b>	<b>(1.293)</b>	<b>6.723</b>

- 4.46 A Reserves Strategy has recently been drafted, which was supported by the Policy & Resources Scrutiny Committee at its meeting on the 12<sup>th</sup> July 2016. A key change from current arrangements in the strategy is a proposed cap on the amount of general reserves Directorates can hold from accumulated revenue budget underspends. The proposed cap is 3% of the revenue budget for each Directorate. Where this cap is exceeded, it is proposed that reports will need to be prepared either outlining proposals to utilise the excess balances or alternatively providing a justification for retaining balances above the 3% cap as a contingency based on an up-to-date assessment of financial risks.
- 4.47 Whichever approach is adopted, the strategy proposes that reports must be considered by the Corporate Management Team (CMT) within 6 months of the end of the financial year in which the 3% cap is exceeded. Any proposals to utilise excess balances that are supported by CMT will then need to be formally authorised in accordance with approval limits set out in the strategy.
- 4.48 The Reserves Strategy is included separately on today's agenda for Cabinet's consideration.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 There are no direct equalities implications to this report in terms of the financial information being presented for 2015/2016.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 As detailed throughout the report.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 There are no direct personnel implications arising from this report.

## **8. CONSULTATIONS**

8.1 There are no consultation responses that have not been reflected in this report.

## **9. RECOMMENDATIONS**

9.1 It is recommended that Cabinet notes the provisional 2015/16 outturn position and the forecast balance on the General Fund as set out in Appendix B.

## **10. REASONS FOR THE RECOMMENDATIONS**

10.1 To ensure that Cabinet Members are aware of the provisional outturn for the 2015/16 financial year.

## **11. STATUTORY POWER**

11.1 Local Government Act 1972.

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Mike Jones, Interim Financial Services Manager, Social Services  
Lesley Allen, Principal Accountant, Housing  
Gail Williams, Interim Head of Legal Services & Monitoring Officer

Background Papers:

Stephen Harris Ext. 3022 – Final Accounts working papers for 2015/16

Appendices:

Appendix A - Provisional Outturn Summary 2015/16

Appendix B - Movement on General Fund