



OVERVIEW AND SCRUTINY COMMITTEES

NOVEMBER 2016

REPORT TITLE	REVENUE MONITORING 2016/17 QUARTER 2
REPORT OF	ASSISTANT DIRECTOR : FINANCE SECTION 151 OFFICER

REPORT SUMMARY

This report sets out the projected revenue position for 2016/17 as at the end of quarter 2 (30 September 2016).

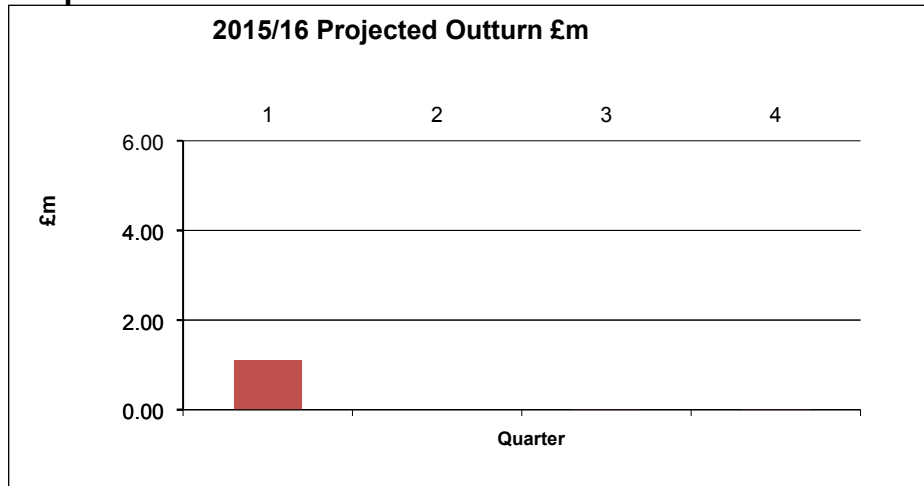
The latest position forecasts an underspend of £0.2 million for 2016/17. This is an improvement of £1.3 million on the quarter 1 forecast (£1.1 million overspent).

The overspend in the Families and Wellbeing Directorate increased during the second quarter. A change to Treasury Management policy to adopt the annuity method for calculating Minimum Revenue Provision (MRP) in respect of capital financing if agreed by Council will however compensate. This change will contribute a significant one-off saving in 2016/17 and cover the overspends elsewhere in the 2016/17 budget.

The report also provides detail of the re-allocation of existing budgets to reflect the New Operating Model which was implemented on 1 November 2016.

The headline position is shown in the graph.

Graph 1: Wirral Council – 2016/17 General Fund Variance



This is a key decision which affects all Wards within the Borough.

Recommendations

1. The quarter 2 forecast year end underspend of £0.2 million, which contains a number of significant variances, be noted.
2. Officers identify actions and take measures to assist to reduce the impact of the projected overspends.
3. The significant in-year contribution offered by the change in Treasury Management assumed in the projections be noted.
4. The realignment of budgets to reflect the New Operating Budget are noted.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

- 1.1 The Council, having set a Budget at the start of the financial year, needs to ensure the delivery of this Budget is achieved. Consequently there is a requirement to regularly monitor progress so corrective action can be taken when required which is enhanced with the regular reporting of the financial position.
- 1.2 The New operating Model was implemented from 1 November 2016 and this requires the re-alignment of budgets to accord with the Model. The changes are more than 'normal' variations so will require the approval of Council.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is a monitoring report but any options to improve the monitoring and budget accuracy will be considered.

3.0 BACKGROUND INFORMATION

3.1 CHANGES TO THE AGREED BUDGET

- 3.1.1 The 2016/17 Budget was agreed by Council on 3 March 2016. Any increase in the Budget has to be agreed by full Council. Changes to the Budget since it was set are summarised in Table 1.

Table 1: 2016/17 Original & Revised Net Budget by Directorate

	Original Net Budget	Approved Budget Changes Prior Qtrs	Approved Budget Changes Qtr 2	Revised Net Budget
	£ms	£ms	£ms	£ms
FWB - Adult Social Care	71,311	5,400	298	77,009
FWB – Children & Young People,	67,773	5,000	516	73,289
FWB - Further Areas: Safeguarding, Schools, Leisure, Public Health	9,383	100	126	9,609
Regeneration & Environment	83,607	-	193	83,800
Transformation & Resources	24,730	500	193	25,423
Corporate Growth, Savings & Grant	7,791	- 9,400	- 1,326	-2,935
Net Cost of Services	264,595	1,600	-	266,195

- 3.1.2 The prior period budget change includes the £1.6 million call on General Fund Balances approved by Council on 17 October 2016. The changes also reflect the allocation of £11.1 million of the Revenue Budget Contingency agreed by Cabinet 18 July 2016. This saw £3.9 million to Adult Social Services, £5 million to Children's Services, £0.5 million for Transformation and Resources and £1.7 million in respect of corporate budgets.

- 3.1.3 The change within Quarter Two relates to the distribution of the 1% pay increase from the corporate budget where it was originally held. This has no effect on the bottom line budget.
- 3.1.4 There has also been movement from Corporate Growth, Savings & Grant to FWB – Children & Young People of £250,000. This is a distribution of the Revenue Budget Contingency 2016/17 as per Cabinet 3 October 2016. This is to meet increased residential care fees where necessary due to pressure resulting from the National Living Wage and Working Time Directive.
- 3.1.5 A New Operating Model for the Council was agreed by Employment & Appointments Committee on 25 July 2016. Since then a number of refinements have been made to reflect the outcome of consultation and further developments. Work has been undertaken to reallocate the budget in the New Operating Model and Table 2 below shows the provisional budget re-allocations on a full year basis with additional detail provided in Appendix 2. The New Operating Model commenced from 1 November 2016 and it is possible that further adjustments will be identified.

Table 2: 2016/17 New Operating Model Budgets

New Operating Model Budget 2016-17	Net Expenditure
Function	£000's
Chief Executiv'e Unit	265
Children Services	44,197
Transformation	655
Strategic Hub	109,856
Business Services	23,889
Delivery	90,018
Corporate Growth and Savings	- 2,685
Total	266,195

- 3.1.6 The New Operating Model realigns current budgets and is cost neutral. However the Model involves revising the existing reporting structure which is beyond the scope of 'normal' day to day budget virements so the revised Budget allocations should be referred to Council for approval
- 3.1.7 A further development is the allocation of Budgets against the themes to the Wirral Plan: A 2020 Vision. As the budgets are refined this will assist with future monitoring by the Overview and Scrutiny Committees.

Table 3: 2016/17 Budget by 2020 Vision Themes

Theme	Net Expenditure £000
People	153,655
Environment	58,678
Business	53,862
Total	266,195

3.2 PROJECTIONS AND KEY ISSUES

3.2.1 The projected outturn position as at the end of September 2016, key issues emerging and Directorate updates are detailed in the following sections.

Table 4: 2016/17 Projected Budget variations by Directorate £000's

Directorates	Revised Budget	Forecast Outturn	(Under) Overspend	RAGBY Class	Change from prev
			Quarter 2		
FWB - Adult Social Care	77,009	80,514	3,505	R	3,505
FWB – Children & Young People	73,039	78,179	5,140	R	1,840
FWB - Further Areas: Safeguarding, Schools, Leisure, Public Health	9,609	10,345	736	R	436
Regeneration & Environment	83,800	82,780	-1,020	Y	-1,020
Transformation & Resources	25,423	17,869	-7,554	Y	-1,354
Corporate Growth, Savings & Grant	-2,685	-3,685	-1,000	Y	-1,000
TOTAL	266,195	266,002	-193		2,407

The report classifies the forecast under/overspends for the above areas using a colour RAGBY rating. The ratings are defined as follows:

- Extreme: Overspends **Red** (over +£301k), Underspend **Yellow** (over -£301k).
- Acceptable: **Amber** (+£141k to +£300k), **Green** (range from +£140k to -£140k); **Blue** (-£141k to -£300k).

3.3 DIRECTORATE UPDATES

3.3.1 Families and Wellbeing: Adult Social Care

- The forecast overspend of £3.6 million relates predominantly to Community Care, where a number of ongoing pressures exist around demographics and demand. The actions to deal with these at the start of the year are now experiencing slippage.
- A number of savings are rated red or amber and are mainly prior year savings. Progress of these is being closely monitored, however delivery of these is challenging as they relates to changes in care. Resources were identified within – and have been allocated from – the Revenue Budget Contingency to offset the pressures in 2016/17.
- Adult Social Care Budgets across the country are under pressure with local authorities, public sector agencies and private providers all highlighting concerns to Government.

3.3.2 Families and Wellbeing: Children and Young People

- The forecast overspend of £5.3 million is within care services. It encompasses higher staff costs of £3 million and Looked After Children commissioning costs of £2.6 million. The latter mainly attributable to the 62 placements currently in Independent Residential care and the projection assumes this number for the rest of the year.

- Additional investment is required during the year in respect of the implementation of the improvement actions and recommendations arising from issues raised in the Ofsted report. This requires a minimum of £2 million which is to be funded from the Transformation Fund.
- The funding of children's social care is a national issue with over 75% of local authorities reporting projected overspends in the current financial year.

3.3.3 Families and Wellbeing: Other

- Within Leisure a £0.5 million overspend relates to previously agreed saving targets in respect of reducing the subsidy combined with new targets.
- Public Health contract savings have been achieved but are being reinvested into other public health activity.

3.3.4 Regeneration and Environment

- Two areas make up the £1 million underspend. In Waste and Environment this through additional income from the litter enforcement contract and from increased subscriptions to the Garden Waste collection service. In Supported Housing contract efficiencies of £500,000 are expected in 2016/17 through the reconfiguration and negotiation with providers.
- There are a number of other smaller underspends but they are countered by a £200,000 overspend in Cultural Services. This is largely due to pressures at the Floral Pavilion as income generation is insufficient to cover costs.

3.3.5 Transformation & Resources

- An underspend of £1.8 million has been achieved in interest payable costs from Treasury Management activity including the use of temporary internal borrowing from cash flows to replace more expensive external borrowing.
- The Authority must annually make a charge known as the Minimum Revenue Provision (MRP) to the revenue budget. This relates to the notional repayment of capital financing debt. The MRP calculation method agreed when setting the 2016/17 budget will allow £3.2 million to be released in 2016/17 along with an ongoing revenue budget saving of £0.45 million. The Treasury Management mid-year report will recommend to Council the adoption of the annuity asset life method for calculating MRP. This will provide an additional £3.7 million one off saving in 2016/17.
- Asset Management is forecasting a £0.5 million overspend. Resources were identified from, the Revenue Budget Contingency but there are still issues relating to delayed implementation of savings.
- Legal & Member Services have a projected overspend of £0.5 million from external legal fees and Coroner budgets.

3.3.6 Corporate Growth, Savings & Grant

- A further £1 million of savings has been identified in respect of contractual savings. This has been placed against corporate savings and will be transferred and reflected in directorate budgets for future reports.

3.4 IMPLEMENTATION OF SAVINGS

3.4.1 Savings of £31 million were agreed when setting the 2016/17 Budget. A further £10 million of savings relating to previous years savings had not been implemented which followed Cabinet in July 2015 agreeing to re-profile £9.6 million of the 2015/16 savings to 2016/17, whilst a further £0.6 million was unachieved by March 2016. An analysis of the position of the £41 million of savings has been undertaken and is summarised below.

Table 5: Budget Implementation Plan 2016/17 (£000's)

RAG	Total identified Shortfall from 2015/16 and prior	Pre-Agreed 16/17	Agreed in 2016/17	Total
Red	5,400	460	3,205	9,065
Amber	1,492	1,300	1,376	4,168
Green	3,300	990	-913	3,377
Blue	-	370	24,755	25,125
TOTAL	10,192	3,120	28,423	41,735

3.4.2 The savings tracker contains an assessment of the 2016/17 savings.

- **Blue:** Represents £25.1 million of savings (60% of total) which have already been realised.
- **Green:** Savings on track to deliver
- **Amber:** Some concerns regarding delivery and will require closer scrutiny and monitoring and includes savings within Adults, Children and Asset Management.
- **Red:** Concerns although largely covered by Revenue Budget Contingency as allocated in quarter 1 comprised of Children's (£5 million), Adults (£3.9 million), Transformation (£0.5 million) and Corporate (£1.7 million).

3.5 INCOME AND DEBT

3.5.1 Revenue and Income falls into four broad areas for reporting purposes. Amounts raised and collected in the year are shown in Table 6.

Table 6: Amount to be Collected in 2016/17

	2016/17 Collectable £000	2016/17 Collected £000	2016/17 Collected %
Council Tax	146,467	80,031	54.6
Business Rates	76,218	41,812	54.9
Fees and charges: Adults & Children	32,580	17,233	52.9
Fees and charges: all other services	36,829	24,783	67.3

COUNCIL TAX

- 3.5.2 Compared with September 2015 the collection performance is higher in both percentage terms and cash received. An additional £3.7 million has been collected. The table compares the amount collected in the period 1 April 2016 to 30 September 2016 with the same period in 2015/16:

Table 7 : Council Tax Comparatives

	Actual	Actual
	2016/17	2015/16
	£000	£000
Cash to Collect	£146,467	£140,145
Cash Collected	£80,031	£76,373
% Collected	54.6%	54.5%

- 3.5.3 The major change this year relates to a 4% increase in the amount collectable of which 2% is for Adult Social Care. Overall Council Tax levels are £6.3 million more than this time last year. There has been a reduction in numbers eligible for Council Tax Support over the last 12 months.

BUSINESS RATES

- 3.5.4 Cash received to 30 September 2016 is up by £1 million on the equivalent period a year ago. The percentage collected to date is lower due to the timing of in year receipts from some large properties with £1 million received early in October. Business Rate levels collectable are £5 million higher than last year reflecting an increased number of properties on the valuation list.
- 3.5.5 The table compares the amount collected for the period 1 April 2016 to 30 September 2016 with the amount collected for the same period in 2015/16:

Table 8: National Non-Domestic Rates Comparatives

	Actual	Actual
	2016/17	2015/16
	£000	£000
Cash to Collect	£76,218	£71,196
Cash Collected	£41,812	£40,920
% Collected	54.9%	57.5%

- 3.5.6 Wirral is part of the Liverpool City Region Business Rates Retention pilot scheme. It is expected that next year we will retain 100% of all Business Rates collected; the figure is currently 49%. Any increase in income will however be offset by reduction/cancelling of Government Grants and the transfer to Wirral of additional responsibilities. The Government have stated that pilot authorities will not be financially disadvantaged by being part of the pilot. Wirral currently receives more in the centrally allocated NNDR 'top-up' grant than its proportion of collectable NNDR.

3.5.7 New Rateable Values (RV) will be effective nationally from 1 April 2017 and businesses have been able to check their new proposed rateable values since 1 October 2016. The new RVs combined with the reduced multiplier used to determine bills seem unlikely at this stage to make a significant change to the Council's financial position.

DEBTORS

3.5.8 At the end of September 2016 the arrears stood at £23.3 million. The table provides an analysis across service areas and the amount of debt at each recovery stage:

Table 9: Accounts Receivable Outstanding Arrears Analysis

Directorate Description	Less than 10 days	1st reminder	2nd reminder	3rd reminder	Total at 30.09.16
	£	£	£	£	£
Chief Executive	86,332	10,449	13,117	970,727	1,080,625
Neighbourhood	29,031	0	1,122	13,357	43,510
Transformation & Resources	3,376,824	718,596	476,479	1,283,078	5,854,977
Families & Wellbeing	3,244,174	453,900	284,359	10,975,497	14,957,930
Regeneration & Environment	751,598	123,358	77,907	492,067	1,444,930
Policy & Performance	0	0	0	100,000	100,000
Totals	7,487,959	1,306,303	852,984	13,834,726	23,481,972

3.5.9 The figures are for invoices in respect of the period up to the end of September 2016. Payments as well as amendments such as write-offs and debt cancellations continue to be made after this date on all these accounts. There is a further deduction of £138,189 to be made for unallocated payments at month end leaving a balance of **£23,343,783** compared to £24,710.123 last year.

4.0 FINANCIAL IMPLICATIONS

4.1 The adoption of the Asset Life method to calculate the Minimum Revenue Provision has been calculated has allowed a minimum of £2.5 million of backdated savings in 2016/17. A further £3.7 million can be achieved if Council agrees to the use of the annuity rather than equal instalment Asset Life method. Both of these revised calculation methods result in the total repayment of the Capital Financing debt, but over a longer period of time. The Treasury Management Mid-Year report will recommend to Council the adoption of the annuity life method.

4.2 The estimated General Fund Balance position is calculated in the table below

Table 10: Summary of the Projected General Fund Balances

Details	£m
Balance 31 March 2016 when setting the Budget 2016/17	+11.5
Add; Additional Returned New Homes Bonus Grant	0.2
Add: Increase following closure of 2015/16 accounts	1.3
Less: Allocation for care fees	-1.5
Less: Reversal of passport for life budget option	-0.1
Projected Balance Excluding Current Year Projection	11.4
Less: Potential underspend at September 2016	0.2
Projected Balance 31 March 2017	11.6

4.3 The projected General Fund balance of £11.6 million at 31 March 2016 is in line with the minimum level required as agreed as part of the Budget 2016/17.

4.4 As part of the Budget 2017/18 preparation there is to be a review of the Earmarked Reserves. The Reserves excluding School balances totalled £58.8 million at 1 April 2016. These include reserves relating to the cost of transformation, mitigation of future financial risks and specific project support.

4.5 There are no IT, staffing or asset implications arising directly out of this report.

5.0 LEGAL IMPLICATIONS

5.1 The entire report concerns the duty of the Council to avoid a budget shortfall. The Chief Finance Officer has a personal duty under the Local Government Finance Act 1988 Section 114A to make a report to the executive if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.

6.0 RESOURCE IMPLICATIONS; ICT, STAFFING AND ASSETS

6.1 There are no implications arising directly from this report.

7.0 RELEVANT RISKS

7.1 The possible failure to deliver the Revenue Budget is being mitigated by:

- Senior Leadership Team / Directorate Teams reviewing the financial position.
- Tracking system of savings options to monitor progress.
- Use of temporary additional support to assist with revenues collection.
- Use of earmarked reserves and General Fund Balance savings risk contingency

8.0 ENGAGEMENT/CONSULTATION

8.1 No consultation has been carried out in relation to this report.

9.0 EQUALITIES IMPLICATIONS

9.1 This report is essentially a monitoring report which reports on financial performance.

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APPENDICES

Appendix 1 General Fund Revenue Budget 2016/17
Appendix 2 New Operating Model Budgets 2016/17

SUBJECT HISTORY

Council Meeting	Date
Budget Council	3 March 2016
Cabinet – Revenue Monitoring 2016/17 Quarter 1	18 July 2016

GENERAL FUND REVENUE BUDGET 2016/17

ORIGINAL BUDGET AGREED BY COUNCIL ON 3 MARCH 2015

Department	Original Agreed Budget	Agreed Changes Quarter 1	Proposed Changes Quarter 2	Revised Agreed Budget
Expenditure	£000	£000	£000	£000
FWB - Adult Social Care	71,311	5,400	298	77,009
FWB – Children & Young People	67,773	5000	516	73,289
FWB - Further Areas: Safeguarding, Schools, Leisure, Public Health	9,383	100	126	9,609
Regeneration & Environment	83,607	-	193	83,800
Transformation & Resources	24,730	500	193	25,423
Net Cost of Services	256,804	11,000	1,326	269,130
Corporate Savings/Growth	-253	1,700	1,326	121
Education Services Grant	-3,156	-	-	-3,156
Revenue Budget Contingency	11,200	-11,100	-	100
Budget Requirement	264,595	1,600	0	266,195
Income				
Revenue Support Grant	50,710	-	-	50,710
Top Up	41,630	-	-	41,630
New Homes Bonus	3,178	-	-	3,178
Business Rates Baseline	34,828	-	-	34,828
Business Rates Section 31 Grants	2,193	-	-	2,193
Council Tax Requirement	120,274	-	-	120,274
Council Tax Freeze Grant	-	-	-	-
Contribution from Balances & Reserves	11,782	1,600	-	13,382
Total Income	264,595	1,600	-	266,195
Statement of Balances				
As at 1 April 2016	11,500		-	11,500
Contributions to Balances ⁽¹⁾	-	1,500	-	1,500
Contributions from Balances ⁽²⁾	-	-1600	-	-1,600
Potential underspend at Quarter 2 2016	-	-	200	200
Forecast Balances 31 March 2017	11,500	-100	200	11,600

Notes:

1. Contribution to Balances relate to closure of accounts 2015/16 (£1.3 million) and returned New Homes Bonus grant (£0.2 million)
2. Contributions from Balances relate to Care Fees contribution (£1.5 million) and reversal of passport for life saving (£0.1 million)

**GENERAL FUND BUDGET 2016/17
NEW OPERATING MODEL**

Budget 2016-17		Net Expenditure Total
Function	Business Unit	£000
Chief Executive	Chief Executive's Unit	265
	Children's Care	18,039
	Children's Care - Commissioned	19,084
	Children's Services	7,074
Chief Executive Total		44,462
Transformation	Transformation	655
Transformation Total		655
Strategic Hub	Communication	957
	Environment	40,149
	Growth	922
	Health & Care	65,489
	Health & Wellbeing	721
	Health & Wellbeing - Public Health	0
	Intelligence	619
	Schools	587
	Strategy	230
	Director for Strategic Hub	182
Strategic Hub Total		109,856
Business Services	Assets	2,991
	Commissioning Support	13,221
	Digital	679
	Finance	1,636
	HR & OD	450
	Law & Governance	4,783
	Director for Business Unit	129
Business Services Total		23,889
Delivery	Adult & Disability	36,036
	Community Services	26,848
	Customer Services	5,007
	Environmental services	22,125
	Merseyside Pension Fund	0
	Director for Delivery	2
Delivery Total		90,018
Corporate Growth and Savings	Corporate Growth and Savings	-2,685
Corporate Growth and Savings Total		-2,685
Grand Total		266,195

Notes:

1. Above is recast on a full year basis. Implementation date is 1st November 2016