Report To: **Cabinet**

Date of Meeting: **27th October 2015**

Lead Member / Officer: **Councillor Julian Thompson-Hill / Richard Weigh, Chief Finance Officer**

Report Author: **Steve Gadd, Chief Accountant**

Title: **Finance Report**

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1. What is the report about?

The report gives details of the council's revenue budget and savings as agreed for 2015/16. The report also provides a summary update of the Capital Plan as well as the Housing Revenue Account and Housing Capital Plan.

2. What is the reason for making this report?

The purpose of the report is to provide an update on the council's current financial position.

3. What are the Recommendations?

Members note the budgets set for 2015/16 and progress against the agreed budget strategy.

Members approve the transfer of £40k funding to the EDRMS reserve to help fund the project in 2016/17.

4. Report details

The report provides a summary of the council's revenue budget for 2015/16 detailed in **Appendix 1**. The council's net revenue budget is £185m (£188m in 14/15). The position on service and corporate budgets is a forecast underspend of £0.476m (£0.380m under at the end of August). Further narrative around the reasons for variances and the risks and assumptions underlying them are outlined below.

Savings of £7.3m were agreed as part of the budget and a summary of the savings is shown as **Appendix 2**. £6.627m (91%) of the savings have already been achieved, an increase of £1.221m on the figure of £5.406m (74%) that was reported last month. Further details on the progress on achievement of the remaining 9% will be reported on in next month's monitoring report.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's revenue and capital budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

Significant service narratives are shown in the following paragraphs.

Children's Services – The service is currently expected to overspend by £129k (£126k overspend last month). As noted last month it is hoped the service can reduce the current projected overspend through the management of vacancy savings and possibly through the utilisation of the Specialist Placement Reserve. However the possibility of further changes to high costs placements will remain a risk.

Planning and Public Protection – The service is currently projected to underspend by £65k (£50k last month) due to the early implementation of agreed budget savings.

Highways and Environmental Services – Risks around School Transport, Parking and the work carried out on behalf of the Trunk Road Agency remain in 2015/16. The following management action has been identified:

- **Parking** - Better performance management of the enforcement staff to increase PCN income and a review of operational costs had already been implemented during last year. Pricing tariffs for the car parks will be reviewed as part of the budget process.
- **School Transport** - A task and finish group was brought together to look at options to reduce the trend of overspending in this area. This has resulted in a revised School Transport policy being issued (applicable from September 2015) which it is hoped will help the service move to a break even position. The effect of the new policy on the budget position is being monitored closely alongside the effect of continuing pressures around demography, college transport and SEN requirements. Details of the contracts in place for the 15/16 academic year are currently being examined and will be reported on next month.
- **North and Mid Wales Trunk Road Agency** - The service has reduced costs in order to limit the impact of the reductions in fee income that are currently known, however there remains a risk of further reductions in income and levels of work.

It is currently projected that the actions identified above alongside careful cost management within the service as a whole will allow the Highways and Environmental Service to break even overall this year.

Business Improvement and Modernisation – This service is now projected to underspend by £80k largely due to vacancy savings related to the early achievement of efficiencies agreed as part of the Phase 4 savings for 2016/17. It is recommended that £40k of this underspend is placed in the EDRMS

reserve in order to contribute to the funding for this corporate project next financial year.

Schools - At the end of September the projection for school balances is £1.894m, which is a reduction of £1.644m on the balances brought forward from 2014/15 (£3.538m). Monitoring reports have been submitted to finance detailing the risks and assumptions that have informed the projections and summaries of plans in place for using reserves and/or dealing with projected deficits. The non-delegated budget is currently projected to overspend by £68k due to additional costs related to the expansion of Broadband in Schools. It is hoped this overspend will be offset by a reduction in historic pension costs, although these figures will not be known until the end of the financial year.

Corporate – It is still currently projected that there will be an underspend on Corporate budgets of £0.454m. The current assumption is that corporate underspends will be used to support the delivery of the Corporate Plan. A review of corporate contingencies, provisions and reserves will be completed in the coming weeks and reported on in November.

Other Service Risks / Assumptions – Although other services are currently projected to break even there are a number of risks and assumptions that will be monitored closely over the coming months and reported to Members.

Corporate Plan cash reserves at the beginning of 2015/16 are £17.413m. Allowing for projected funding and expenditure during the year, the Corporate Plan reserve at the end of the year is estimated to be £4.231m.

PFI Contract Termination Update

As reported to Cabinet in May 2015, under the terms of the PFI Project Agreement covering County Hall, Ruthin Town Hall and the Corporate Store, the council issued a formal notice to terminate the Agreement on 14th May. The buildings are already on the council's balance sheet and the council paid an annual charge (called a unitary charge) covering maintenance, utilities and financing costs totalling £2.6m per year. In order to save money, the council elected to terminate the PFI Agreement fifteen years early – the agreement was due to expire in 2029. Under the terms of the Agreement, termination triggered a compensation payment to the PFI counterparty and a termination account was submitted to the council on 7th September. The compensation calculation was within the boundaries of the estimate that informed the original business case to terminate, but the council disagreed with elements of it and over several weeks has successfully negotiated a reduction of £1.2m. The final elements of the compensation sum were agreed on 14th October 2015 and resulted in a total compensation sum of £16.9m. In addition to this, fees of £34k were incurred on specialist support and specific legal and tax advice.

Crucially, terminating the PFI Agreement provides better value for money for the council. It is similar to repaying a mortgage or loan agreement early - the compensation paid is essentially paying a lump sum in lieu of the payments that would have been made over the remaining term of the contract. The key issue though is that by paying this lump sum 'in advance', the council has both

saved and avoided contractually committed costs of at least £12m over the next 15 years.

This is because the council is able to finance the termination costs and maintain the buildings at a lower cost than the unitary charge. In respect of the annual revenue budget, the move realises annual savings of £300k immediately by replacing the financing charge with a lower borrowing cost (as agreed as part of the 2015/16 budget savings) and will help contribute to further savings as part of a wider review of the council's capital financing budget. It will also provide the council with full control of the buildings, which under the PFI Agreement, had costly restrictions imposed, such as on the numbers of people based in the building, use of the car park and prescribed (costly) maintenance arrangements. Therefore, further budget savings should be generated through more cost effective management of the buildings and better value procurement of utilities and insurance. It also provides the opportunity to facilitate wider efficiencies in future through possible further consolidation of the council's office accommodation buildings.

A further, detailed report will be presented to the Corporate Governance Committee in November.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £47.4m with expenditure to date of £17.2m. Also included within Appendix 2 is the proposed expenditure of £26.6m on the **Corporate Plan**. **Appendix 4** provides an update on the major projects included in the Capital Plan.

The **Housing Revenue Account (HRA).** The latest revenue position assumes an increase in balances at year end of £150k compared to a budgeted increase of £168k. HRA balances are forecast to be £2.002m at the end of the year. The Capital budget of £7.8m is allocated across Repairs and Maintenance planned repairs (£7.2m), Environmental Improvements (£0.5m) and an IT project (£150k).

Treasury Management – At the end of September the council's borrowing totalled £189.442m at an average rate of 4.9%. Investment balances were £11.5m at an average rate of 0.63%.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

A detailed impact assessment was produced as part of the budget setting process and was reported to Council in December 2014.

8. What consultations have been carried out with Scrutiny and others?

In addition to regular reports to the Corporate Governance Committee, the budget process has been considered by CET, SLT, Cabinet Briefing and Council Briefing meetings. Specific proposals were reviewed by scrutiny committees. There were ten budget workshops held with elected members to examine service budgets and consider the budget proposals.

There was a public engagement exercise to consider the impact of budget proposals and there are ongoing discussions between some of the county council's services and some Town councils. The council has consulted its partners through the joint Local Service Board and specific discussions have taken place with the Police.

All members of staff were kept informed about the budget setting process and affected staff have been or will be fully consulted, in accordance with the council's HR policies and procedures. Trade Unions have been consulted through Local Joint Consultative Committee.

9. Chief Finance Officer Statement

It is important that services continue to manage budgets prudently and that any in-year surpluses are considered in the context of the medium-term financial position, particularly given the scale of budget reductions required over the coming two or three years.

10. What risks are there and is there anything we can do to reduce them?

This is the most challenging financial period the council has faced and failure to deliver the agreed budget strategy will put further pressure on services in the current and future financial years. Effective budget monitoring and control will help ensure that the financial strategy is achieved.

11. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.