

Report To: Cabinet

Date of Meeting: 16th February 2016

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

Report Author: Steve Gadd, Chief Accountant

Title: Finance Report

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 allocation of £4.8m contingency to support Glasdir and Ysgol Carreg Emlyn schemes within the 21st Century Schools Programme, to be funded from the release of revenue budgets from within the overall Schools Modernisation Programme.

Members approve the write-off of debts owed by The Scala Prestatyn Company Limited amounting to £140k.

Members approve the allocation of £1.5m from the review of balance sheet provisions and in year contingencies to the Capital Plan.

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 £0.418m (£0.460m under at the end of December). 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**. £6.647m (91%) of the savings have already

been achieved. As reported previously, the majority of the remaining 9% of savings are projected to be achieved by 2016/17 at the latest.

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 £308k (£241k overspend last month). As noted last month there is always the possibility of changes to high costs placements which can adversely affect the projected outturn within this service. The movement from last month relates to a number of new residential and independent fostering placements. It is still hoped the service can reduce the current projected overspend before the end of the financial year, otherwise the pressure will be funded through the Specialist Placement Reserve.

Planning and Public Protection – The service is currently projected to underspend by £89k (£61k last month) largely due to the early implementation of agreed budget savings. The movement from last month relates to further staff vacancies and an increase in projected income.

Highways and Environmental Services – A number of risks and issues still exist within the service both in 2015/16 and beyond relating to Parking, School Transport, and the North and Mid Wales Trunk Road Agency. As reported in detail in previous reports management action has been identified to help mitigate these particular risks and the effects have also been offset by a number of underspends elsewhere within the service. The service is therefore currently still projected to overspend by £75k (£112k overspend reported last month). The movement relates to further careful management of discretionary expenditure across the service. So far, expenditure on winter maintenance activity has been much lower than in previous years and if this continues, it will also contribute to funding the pressures highlighted above.

The effect of the severe wet weather at the end of December has left the Council with a backlog of maintenance required on the road network. A full assessment of the requirement is still to be finalised but is likely to be in excess of £250k. Welsh Government funding is being sought, however the work will be funded from the Severe Weather Reserve even if no external funding becomes available.

Legal, HR & Democratic Services – The service is now projected to overspend by £67k (break-even position last month). The majority of this movement relates to staff exit costs which forms part of a restructure which will help the service modernise and become more resilient in the coming years.

Finance, Assets & Housing - The service is now projected to underspend by £24k which relates to staff vacancies.

Business Improvement and Modernisation – The service is now projected to underspend by £126k (£86k underspend last month) largely due to vacancy savings related to the early achievement of efficiencies agreed as part of the Phase 4 savings for 2016/17. The movement is largely due to a delay in providing additional staffing resource for Strategic Planning and Corporate Information.

School Improvement and Inclusion – The service is currently projected to underspend by £114k (£116k underspend reported last month). £33k of the underspend is due to the early achievement of the School Library Service efficiency, the remaining £81k is due to temporary vacancy savings pending the merger of the service with Children’s Services. It is hoped that this underspend can be utilised in future years to help fund the additional service requirements resulting from the draft Additional Learning Needs and Education Tribunal Bill which sets out proposals for a new legislative system for supporting children and young people, aged 0-25, who have additional learning needs.

Schools - The latest projection for school balances is £1.426m, which is a reduction of £2.112m 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 £69k 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.

Economic and Business Development - The service is currently projected to underspend by £142k (£51k underspend last month). In May the newly restructured EBD Team was put in place, with a significant change in direction and new focus on engagement with the business community which required the development of a new programme of work for the team. The underspend is due to a delay in project work within the following areas:

- Town Centre Growth Plan
- Tourism Growth Plan
- Timing of the award of Small Business Grants
- Cancellation of a Business Networking Event

There is no reduction in the number or scale of actions proposed in spending plans and costs are now expected to be incurred in the next financial year for which it is hoped the service will be able to carry forward appropriate funds.

Corporate – It is currently projected that there will be an underspend on Corporate budgets of £374k (£454k underspend last month). The movement from last month relates to the formal write-off of the loan to the Scala (see below).

As stated last month there has been a review of corporate contingencies, provisions and reserves ongoing. This review has identified £700k as a one-off contribution from corporate contingencies and £800k from provisions held on the balance sheet which can now be released. It is currently projected that £1.5m will be contributed to the Capital Plan as noted in the capital report also on this agenda. The review of reserves has yet to be finalised and will be reported to Members before the end of the financial year.

As highlighted over recent months, the risk remains on corporate budgets around the likelihood of further contributions being levied to service the council's obligations (along with most others in the UK) in respect of the former Mutual Municipal Insurance Company. Councils were mutual members of the company and have inherited liabilities upon its winding up. The liabilities relate to historical claims. This follows £393k that was paid in 2014/15. No figures have been quoted as yet for the latest levy but the council's maximum exposure is £2.225m. Although we are not expecting notification of the financial obligation before March 2016, it is likely that the figure will be similar to that paid in 2014/15 and if so, it will be funded from the corporate budget.

The Council has been informed by the insolvency solicitors that the process to remove The Scala Prestatyn Company Limited from the Register of Companies has formally begun. As part of this the solicitors have written to the Council to inform us that 'Scala has no assets and is not in a position to make any outstanding payments'. The total debt owed by the company to the council amounts to £140k (£60k in sundry debtors and an £80k loan). It is now recommended that these debts are formally written off. The sundry debtors were provided for in full at year end last year so will have no effect on this year's outturn and the write-off of the loan will be funded from corporate contingencies as noted above.

Other Service Risks / Assumptions – Although other services are currently projected to break even, as always, 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.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £47.5m with expenditure to date of £33.4m. Also included within Appendix 3 is the proposed expenditure of £25.2m in 2015/16 on the **Corporate Plan**. The Strategic Investment Group (SIG) discussed the funding requirements of the Ruthin Primary School 21st Century Schools project on the 28th January. SIG have made a recommendation to Cabinet that £4.8m contingency is set aside to support Glasdir and Ysgol Carreg Emlyn schemes, funded from the release of revenue budgets from within the project. It can be confirmed that this sum is affordable and maintains progress on the overall 21st Century schools programme. **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 £170k compared to a budgeted increase of £168k. HRA balances are forecast to be £2.021m at the end of the year. The Housing Capital Plan forecast expenditure is £5.6m. Any slippage in the capital plan will be rolled forward into the Housing Capital Plan for 2016/17.

Treasury Management – At the end of January the council's borrowing totalled £187.342m at an average rate of 4.98%. Investment balances were £10.0m at an average rate of 0.7%.

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 was considered by CET, SLT, Cabinet Briefing and Council Briefing meetings. Specific proposals were reviewed by scrutiny committees and there was a public engagement exercise to consider the impact of budget proposals. The council consulted its partners through the joint Local Service Board and specific discussions took place with the Police. All members of staff were kept informed during 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 were consulted through the 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. The additional funding to support the Corporate Plan is affordable and can be met from existing resources within the overall programme.

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.