

**Report To: Cabinet**

**Date of Meeting: 29th March 2016**

**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. The report also includes an update on the Final Settlement for the 2016/17 Budget.

**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 use of the underspend within the PFI and Capital Financing Budgets of £677k to set up a reserve to help mitigate the effects of future reductions in funding received from Welsh Government as part of the budget strategy for 2017/18.

Members note the update on the Final Settlement and approve the recommended use of the additional £6k in Welsh Government funding.

**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 £0.585m (£0.419m under at the end of January). 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. A number of services are currently projected to underspend and indications are included below as to how services may be planning to carry forward and utilise these resources in the new financial year. However full recommendations covering service proposals will be considered in more detail in the next finance report.

**Children's Services** – The service is currently expected to overspend by £326k (£308k overspend last month). As noted last month changes to high costs placements can have a significant impact financially. 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 £54k (£89k last month) largely due to the early implementation of agreed budget savings. The movement from last month is a result of legal costs relating to a planning application appeal that went against the Council.

**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 £37k (£75k overspend reported last month). The movement relates to further careful management of discretionary expenditure across the service and revised assumptions around winter maintenance activity.

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 £66k (£67k overspend last month). The majority of the overspend 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 £18k (underspend of £24k last month) which relates to staff vacancies.

**Business Improvement and Modernisation** – The service is now projected to underspend by £321k (£126k underspend last month). £28k of the movement relates to the early identification of savings around the delivery of Business Planning across the Council, the full year budget saving will contribute to the target of £100k for 16/17. The remaining £167k relates to reduced ICT consultancy costs, additional credits received on communications contracts as well as a review of commitments held on the system. The service hopes to utilise the underspend to offset the costs of the planned service restructure within ICT, extend the temporary archivist role within Information Management and invest in staff training.

**Communication, Marketing and Leisure** – The service is currently projected to underspend by £55k (projected to break-even last month). £35k of the movement relates to a delay in procurement of equipment within the Youth Service, it is hoped the service can carry this underspend into next financial year to fund the outreach equipment. The remaining movement relates to a change in the projected timescale for the recruitment of a Leisure Centre Manager and the reduction of a number of small overspends.

**School Improvement and Inclusion** – The service is currently projected to underspend by £43k (£114k underspend reported last month). The movement of £71k relates to an increase in Out Of County costs. It is hoped that the remaining 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 £1.320m (£1.426m last month), which is a reduction of £2.218m 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 £66k 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 £149k (£142k underspend last month). The underspend is due to a delay in project work within a number of areas as detailed in previous monitoring reports. 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 (£374k underspend last month).

During the year the budgetary position around the PFI buy-out has been kept under review and has indeed informed the release of budget savings for 2016/17. As we approach the end of the financial year it can now be confirmed that there will be an in-year underspend of £577k relating to these budget areas. Alongside this £100k underspend has been identified in the Capital Financing Budget due to a decrease in the need to borrow externally. It is recommended that this underspend of £677k be placed in a reserve to help mitigate the effects of future reductions in funding as identified in the latest Medium Term Financial Plan (MTFP). The former PFI budget will help contribute to efficiency targets as part of the budget for 2017/18.

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.

**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 £2m.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £45.4m with expenditure to date of £36.2m. Also included within Appendix 3 is the proposed expenditure of £24m in 2015/16 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 £186k compared to a budgeted increase of £168k. HRA balances are forecast to be £2.037m 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 February the council's borrowing totalled £187.337m at an average rate of 5.01%. Investment balances were £9.4m at an average rate of 0.72%.

**Budget Update** – On 2<sup>nd</sup> March the Welsh Government published the Final Settlement for Local Government, which was approved by the Assembly on 10<sup>th</sup> March. As had been promised there was very little change between the

Draft and Final Settlements, however it did result in an additional £6k funding for Denbighshire. It is recommended that the additional £6k is added to the £480k Corporate Contingency for 2016/17 which can be used to help offset any delays in achievement of efficiencies.

**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.

**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.