

Report To: Cabinet

Date of Meeting: 27th September 2016

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

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 2016/17. 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 and confirm the agreed service budgets for 2016/17.

3. What are the Recommendations?

Members note the budgets set for 2016/17 and progress against the agreed budget strategy.

Members formally approve the draft Medium Term Financial Plan which is included as **Appendix 5**.

Members approve the recommended actions to mitigate the effects on the financial outturn of savings either being deferred until 2017/18, or not being achieved at all as detailed in the table in **Section 6**.

Members approve the recommendation of the Strategic Investment Group to invest £4.4m in the first phase of the waterfront development project in Rhyl. The recommendation incorporates approval of a funding package that includes earmarking the capital receipt anticipated from the sale of the former Honey Club site in Rhyl. See tables in **Section 6**.

4. Report details

The report provides a summary of the council's revenue budget for 2016/17 detailed in **Appendix 1**. The council's net revenue budget is £185.062m (£184.756m in 15/16). The position on service and corporate budgets is a forecast overspend of £0.351m (overspend of £0.402m reported for July). Narrative around the current risks and assumptions underlying this assessment are outlined in Section 6.

Savings of £5.2m were agreed as part of the budget and a summary of the savings is shown as **Appendix 2**. As promised in July's report a full assessment of the progress of the 2016/17 savings has now been carried out. This assessment shows that 60% of savings have already been achieved, with a further 10% of savings making good progress, making a total of 70% likely to be achieved (67% reported last month). This leaves 25% of savings which are classified as being deferred (meaning that there is still the expectation that these savings can and will be achieved in 2017/18) and only 5% of savings which cannot be achieved within this timeframe. Further details and recommendations are included in section 3 and 6 of this report.

The draft Medium Term Financial Plan is included as **Appendix 5**. This has been circulated to Members via e-mail and also made available in the Members' Library. The purpose of including it in this report is to request formal approval of the document.

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.

Customers, Communications and Marketing is currently projected to overspend by £55k (£138k last month). The pressure is due to redundancy costs and higher than anticipated relief costs.

Education and Children's Service is now reporting an over spend of £16k (break-even last month). The over spend relates to ongoing tribunal and legal costs. The service is currently undergoing a review of its structures which may release in year savings.

Finance is projecting to underspend by £20k (£37k underspend last month) due to staff vacancies. The staff vacancies are currently being reviewed in order to help deliver the required savings for 2017/18, while ensuring the service can still deliver effectively during this difficult economic period for the council.

Highways and Environment Services – Although a £300k overspend is being recorded for this service (same as last month), this is very much an indicative figure at this stage. The reasons for including an over spend at this stage are threefold:

- School Transport - the new policy applicable from September 2015, which was intended to resolve the ongoing budget pressure in this area, has been the subject of a number of appeals around the application of the policy. The resolution of the issues will involve an increase in ongoing School Transport costs as well as one-off specific legal costs.

- Additional costs are being incurred due to the recent failure of a local bus company. Plans are in place to cover both school and public transport routes but there will be additional costs involved, although at this stage the projections are still largely based on estimates. Further details around this issue are included in the report by the service also on the agenda for this meeting.
- The service is also facing pressures around the North and Mid Wales Trunk Road Agency contract - 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.

The service is identifying areas of possible underspend within the service to mitigate some of these risks, however at this stage it is unlikely that the service will be able to break-even. The budget process for 17/18 is taking into account some of the ongoing pressure around transport.

Although no specific variances are being reported on other services at this stage it is projected that the following services will need to identify management action in order to contain the following pressures within the overall budget:

- **Community Services** – inflationary pressures such as the implementation of the statutory National Living Wage (NLW) will result in an increase in care home fees. Although it is hoped the pressure in 16/17 can be contained within existing budgets and through the use of reserves, the annual increase in NLW will cause a significant pressure in future years. Community Services utilised reserves of £0.386m in 2015/16 in response to such pressures and it is currently projected that the service will need to use approximately £1.7m of reserves in 2016/17. These pressures are being considered as part of the 2017/18 budget process and Medium Term Financial Plan.
- There also remains a number of demand-led and therefore volatile budgets such as **Children's placements**. Reserves have been put in place to help manage annual variances, however they remain areas of risk in 16/17 and beyond and will be monitored closely.

However services also have a healthy level of specific reserves and have been allowed to carry forward significant service underspends which are detailed in full in the Final Outturn Report for 2015/16. Also as part of the 16/17 budget process a one-year budget delivery contingency of £486k was set aside to mitigate the risks to the delivery of the budget including any delays in achievement of efficiency savings.

A full review of all in-year and future service and strategic pressures took place as part of the 2017/18 budget process. This detailed assessment has now been completed. As detailed in section 4, 25% of savings are now classified as being deferred (meaning that there is still the expectation that these savings can and will be achieved in 2017/18) and only 5% of savings that cannot be achieved within this timeframe. The table below summarises the position and identifies recommendations to deal with the resultant

pressures in year. The principle has been that for deferred savings cash resources have been identified, while for the 5% of savings that cannot be achieved permanent budget virements are recommended in order to allow services to plan for the future.

Service	Saving	Amount £000	Proposed Action
Community Support Services	In-house Review / Provider Service - Outsourcing	700	There is currently a delay in In-House Care Services Developments which has been the subject of detailed reporting, delay to be covered by use of reserves.
Facilities, Assets and Housing	Rhyl Pavilion Operating model	350	Deferred pending coastal development. Recommend use of corporate cash contribution in 16/17.
Facilities, Assets and Housing	Accommodation Strategy	258	Brighton Rd will not close this year. Recommend use of corporate cash contribution in 16/17.
TOTAL DEFERRED SAVINGS		1,308	
Customers, Communication and Marketing	Channel Shift Project	70	Channel Shift Project is currently being re-configured. Savings will not be achieved in 16/17 and the details of the revised project are not yet scoped out. Recommend to reverse these savings from central contingency. Alternative savings will form part of the new project scope.
Highways and Environmental Services	Channel Shift Project	140	
Education and Children's Service	Legal Fees	70	Assumed reduction to fees will not happen. Assume Recommend to reverse these savings from central contingency given pressures on Children's budget.
TOTAL UNACHIEVED SAVINGS		280	

Corporate – The Medium Term Financial Plan (MTFP) includes a savings target of £1m for 2017/18. It is likely that some of these savings will be identified and achieved during 2016/17. Progress will be reported to Members during the coming months.

Schools – Although schools received protection of 1.85% (£1.173m) they have also had to find efficiency savings to fund inflationary pressures of approximately £2.5m. As reported last month it was likely that the reduction in School's balances seen during 2015/16 would continue in 2016/17. Initial assessments of projected balances show that at the end of August the projection for school balances is a net deficit balance of £0.687m, which is a reduction of £2.249m on the balances brought forward from 2015/16 (£1.562m). Schools are currently working closely with Education Finance colleagues on detailed financial plans for the new academic year and over the following two years to deliver long term balanced budgets. Further details on the progress of this process will be reported monthly to Cabinet through the Finance Report.

The **Housing Revenue Account (HRA)**. The latest revenue position assumes an increase in balances at year end of £257k which is in line with the budgeted increase of £257k. HRA balances are forecast to be £2.861m at the end of the year. The Capital budget of £11.8m is allocated between planned

improvements to existing housings stock (£8m) and new build developments (£3.8m).

Treasury Management – At the end of August, the council’s borrowing totalled £188.726m at an average rate of 4.97%. Investment balances were £5.3m at an average rate of 0.39%.

A summary of the council’s **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £35.1m with expenditure to date of £8.9m. Also included within Appendix 3 is the proposed expenditure of £31m on the **Corporate Plan**. **Appendix 4** provides an update on the major projects included in the Capital Plan.

The Strategic Investment Group has reviewed and is recommending that the following works, part of the first phase of the waterfront development in Rhyl are approved. It should be noted that the element of works specifically covering the demolition of the Sun Centre were reported to SIG and approved within the delegation profiles of SIG members to ensure there was sufficient time to complete tendering exercises and the works before the winter. This element is grouped together below with internal improvements to the Theatre. For completeness, the remainder of this phase of works and details of the proposed funding are shown below.

Proposed works:

Sun Centre Demolition & Internal Theatre Improvements	£1.382m
External Recladding – Theatre	£1.186m
Refurbishment of east car park	£0.604m
Improvements to Children’s Village car park	£0.601m
Sky Tower enhancement	£0.316m
Aquatic Centre Design Fees	£0.175m
Sun Centre Hoardings	£0.013m
Unit C Demolition – Children’s Village	£0.171m
Total	£4.448m

Funding:

Welsh Government Grant	£3.500m
Capital Receipt (Former Honey Club site)	£0.550m
Residual Funding	£0.277m
Service Contributions	£0.121m
Total	£4.448m

The Welsh Government grant conditions require that it is fully expended by the end of the financial year. The capital receipt noted is estimated as net of fees. The residual funding is the remainder of balances held relating to the winding up of Clwyd Leisure Ltd. Service contributions are from the car parks budget to specifically contribute to the improvement works to car parks and will ultimately generate additional revenue.

Corporate Plan cash reserves at the beginning of 2016/17, are £2.050m. This is after taking account committed funding already transferred to the capital plan to fund expenditure in 2016/17 of £7m. Allowing for projected funding and additional expenditure during the year, the Corporate Plan balance at the end of the year is estimated to be £4.7m.

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

An EqIA has been completed for all relevant proposals included in the 2016/17 Budget.

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 regular budget workshops held with elected members to examine service budgets and consider the budget proposals. The council has consulted its partners through the joint Local Service Board. 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.

Specific pressures are evident in social care budgets but will be contained in the current year and considered as part of the budget process for 2017/18. Forecasts indicate school balances will continue to decline and the position will be kept under close review.

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

This remains a challenging financial period 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.