Report To:	Cabinet
Date of Meeting:	13th December 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?

It is recommended that Members:

- Note the budgets set for 2016/17 and progress against the agreed budget strategy.
- Approve that the current and previous year's underspend within the ICT service is transferred into the IT Networks Development Reserve to fund the specific modernisation projects described in Section 6, and receive periodic progress reports on delivery.
- Approve the formal write off of sundry debtor balances amounting to £37,599 relating to Clwyd Leisure Ltd which has already been provided for in full.

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 underspend of £0.909m (underspend of £0.533m reported for September). 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**. The assessment shows that 68% (68% last month) of savings have already been achieved, with a further 2% (2% last month) of savings making good progress, making a total of 70% likely to be achieved. 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. The situation will continue to be monitored closely and reported to Cabinet on a monthly basis.

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 £127k (£113k last month). The overspend relates to the following areas:

- Redundancy costs relating to planned restructure.
- Higher than anticipated relief costs.
- Agreed expenditure relating to a project aiming to improve processes within the cash office workstream. The aim of the project is to improve the operational efficiency of the work area, as well as providing the Council with assurance around the robustness of the processes and systems in place for the handling of income.

The service is currently working hard to identify in year expenditure reductions to mitigate the impact of the areas of overspend.

Education and Children's Service is reporting an over spend of £38k (£16k 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. However the service contains 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. Last month it was reported that a £471k contribution from the Placements Reserve was required to offset an overspend on the placements budget due to a number of high cost residential placements and fostering arrangements. The current projection has increased by £28k to £499k largely due to an increase in projected spend on disability equipment.

The Placement Reserve at the beginning of the year stood at £591k, therefore the additional costs highlighted above would see a significant reduction in the ability of the service to cope with future increases in placement numbers and costs. The situation is being monitored closely and will need to be considered as part of the ongoing budget strategy and Medium Term Financial Plan.

Business Improvement and Modernisation is now projected to underspend in total by £475k (£53k underspend last month). The underspend is split between ICT and the rest of BIM and are dealt with separately below:

- BIM's underspend has increased from £53k to £71k due to an unexpected staff vacancy. It is hoped this underspend will be able to be carried forward to help to extend the role of the Service Challenge Coordinator for a further 12 months and to facilitate and improve the Resident's Survey.

- ICT is now projected to underspend by £404k, however £225k of this relates to 2015/16 underspend which was carried forward. It had been planned that this would be used to facilitate the service restructure by funding the projected exit costs, however the restructure has been achieved largely through managed vacancies rather than through compulsory redundancies, therefore the carry forward has not been required for that purpose. An in-year underspend of £179k is also now being reported which largely relates to temporary staff vacancies resulting from the restructure and savings made on training and consultancy expenditure. The service is requesting that this underspend be placed in the 'IT Networks Development – Reserve' which was set up from previous service underspends in order to help fund the Corporate ICT Strategy. The service has produced a two-year plan to help give Members assurance that the projects will actually be delivered, along with cost estimates, which is summarised below:

Item	**Description**	**2017/18 £000**	**2018/19 £000**
Replacing Lotus notes	Phase two of the migration from Lotus Notes this time concentrating on the complex mail-in function and databases.	80	20
Virtualisation renewal	Investigate other virtulisation platforms such as Microsoft Hyper V to identify if current funcationality and management capability can be maintained whilst reducing costs potentially by 'sweating' our investment in the Microsoft Enterprise Agreement	60	40
Wireless infrastructure	Move away from a wired environment for corporate network provision and adopt a secure wireless infrastructure for all devices. (mobile, tablet, laptop)	60	
New Service Desk	Research, Tender, Procure, implement and migrate to a new Service Desk Solution potentially 'sweating' the Council's investment in the Microsoft Enterprise Agreement	60	
Legacy server replacement	Some services still run systems on legacy hardware and proprietary unix operating systems prodominently on IBM AS/400 and AIX this is a risk to business continuity, modernisation and PSN compliance. These systems will need to move onto new hardware and Operation Systems during the next 2 years	40	20
Mobile App development	Identify a solutions partner to develop bespoke mobile apps to support the Digital programme for field workers and Citizens.	30	
Single sign-on	Continue to explore options for adopting single sign on for systems as part of the modernisation agenda. Currently systems such as Outlook and Proactis are utilising single sign on an work on single sign on for iTrent will be completed this year.	10	
Project support	Provision of Support for IT projects	30	20
Total		**370**	**100**

If agreed, progress against this plan should be reported to cabinet periodically.

Finance is projecting to underspend by £22k (£32k 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 – A £300k overspend is being recorded for this service (same as last month), this is still an indicative figure at this stage. The reasons for the over spend 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. It is currently assumed that promised funds will be forthcoming from the Welsh Government in order to help mitigate the in-year financial impact of this pressure.
- 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.

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 still currently projected that the service will need to use approximately £2.2m of reserves in 2016/17 (as reported last month). These pressures are being considered as part of the 2017/18 budget process and Medium Term Financial Plan.

Corporate – The Medium Term Financial Plan includes a savings target of £1m for 2017/18. As reported last month some of these savings have been identified and achieved during 2016/17 resulting in an overall underspend of £0.877m. In particular the full ramifications of the PFI buy-out have now been worked through and a further saving of £0.986m has been identified. This saving is partly offset in 2016/17 by the service pressures that are being funded from the corporate budgets as recommended and approved in the September Cabinet Report. It is currently hoped that this underspend can be placed in the Budget Mitigation Reserve in order to help smooth the levels of savings required from 2018/19 onwards. However due to the pressures that have been identified in Social Care and Children’s Services, a final decision to recommend this option will be delayed until the overall outturn position becomes clearer and more certain.

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 in previous reports it was likely that the reduction in School’s balances seen during 2015/16 would continue in 2016/17. The projection for school balances at the end of November is a net deficit balance of £0.703m, which is a reduction of

£2.265m on the balances brought forward from 2015/16 (£1.562m). Schools continue to work 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. A number of Task and Finish groups are currently being set up in consultation with and involvement of the Schools Budget Forum to discuss issues around School Balances and the School Formula.

The **Housing Revenue Account (HRA)**. The latest revenue position assumes that the service will break-even this year and that HRA balances are therefore forecast to remain at £2.604m 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 November, the council's borrowing totalled £193.4m at an average rate of 4.85%. Investment balances were £6.35m at an average rate of 0.2%.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £40.6m with expenditure to date of £17.3m. Also included within Appendix 3 is the proposed expenditure of £31.7m on the **Corporate Plan**. **Appendix 4** provides an update on the major projects included in the Capital Plan.

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.

Clwyd Leisure Limited ceased trading on Friday 7 February 2014 and an insolvency practitioner has managed the winding-up of the company, which was concluded last financial year. The Liquidator's final report was approved at a meeting held on 24 February 2016. Under the terms of a debenture, the council was deemed a preferential creditor and received a total of £295,478. As explained in the Statement of Accounts for 2015/16 there remained sundry debtor balances totalling £37,599 which were provided for in full pending the completion of formal write off procedures. As the Statement of Accounts has now been approved by Welsh Audit Office it is now recommended that the £37,599 is formally written off. This will have no impact on the revenue outturn as the amount has already been provided for in full.

7. What are the main conclusions of the Well-being Impact Assessment?

A full Impact Assessment was completed for all relevant budget proposals which formed part of the 2016/17 Budget. The new Well-being Impact Assessment will be completed individually for all budget saving proposals which form part of future budgets, although it is envisaged that individual assessments will not be required for genuine efficiency savings.

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 (both Adults' and Children's) 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.