

Report To: Cabinet

Date of Meeting: 24th January 2017

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 the transfer of £1m from the Corporate and Miscellaneous budget to the Budget Mitigation Reserve in order to facilitate the delivery of the Medium Term Financial Plan (MTFP) which requires an additional cash contribution of £1m for 2018/19 in order to mitigate and smooth the effects of the projected funding reductions over a number of years.
- Consider the Strategic Investment Group's recommendations with regard to the Ysgol Llanfair 21st Century Schools project:
 - Cabinet supports the submission of a Business Case for Ysgol Llanfair (Appendix 5) new school building to the Welsh Government.
 - Cabinet formally approves the overall budget of £5.369m as detailed in the business case.
 - Cabinet supports in principle the proposed purchase of land at Llanfair to facilitate the development of the new school.

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

£1.070m (underspend of £0.909m reported for November). 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 £129k (£127k 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.

Although the service continues to work hard to identify in year expenditure reductions to mitigate the impact of the overspend, it is unlikely that the projected overspend will reduce significantly this financial year.

Education and Children's Service is now reporting a break-even position (£38k overspend last month). 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

Business Improvement and Modernisation is now projected to underspend by £69k (£475k underspend last month). The majority of the movement relates to the agreed transfer of £404k to the 'IT Networks Development – Reserve' in order to help fund the Corporate ICT Strategy as agreed at December's cabinet meeting. The service has produced a two-year plan to help give Members assurance that the projects will actually be delivered, along with cost estimates. Progress against this plan can be reported to cabinet periodically

The core BIM underspend of £69k (£71k last month) relates to staff vacancies. 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.

Finance is projecting to underspend by £11k (£22k 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 – The service is now projected to overspend by £164k (£300k last month). 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 has successfully identified areas of underspend within the service to mitigate some of these risks which has reduced the overall overspend by £136k. The service will continue to manage budgets carefully to try and bring the service into a break-even position. 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 £2.0m of reserves in 2016/17 (£2.2m 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 £1.285m (£0.877m last month). The increase in underspend relates to revised cost estimates for in-year energy costs and a reduced projected call on the Council Tax Reduction Scheme. However the majority of the underspend relates to the PFI buy-out which has allowed the release of a saving of £0.986m. As noted in previous months the agreed MTFP includes an additional cash requirement of £1m for 2018/19 in order to mitigate and smooth the effects of the projected funding reductions over a number of years. It is therefore requested that £1m of this underspend be placed in the Budget Mitigation Reserve in order to help deliver the MTFP. Previous years have also seen the Council collect more of the Council Tax that it is owed, thus resulting in a higher yield.

These figures are not known until year end but may result in further cash resources being made available. It is hoped that the remaining underspend within Corporate Budgets, as well as any increase in availability of cash due to the efficiency of Council Tax collection, can be used to reimburse, in part, the reserves that are currently projected as being required to fund the substantial pressures in Community Services and Children's Services.

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 December is a net deficit balance of £0.759m, which is a reduction of £2.321m 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)**. Following in depth analysis carried out in conjunction with the rent setting process for 2017/18, projected balances at year end are expected to be £2,315k. Although this is £546k less than budgeted for in for 2016/17, it is in line with the Housing Stock Business Plan which assumes a balance of £2m is maintained over the medium term to mitigate any future risks. The Capital budget of £11.8m is allocated between planned improvements to existing housing stock (£8m) and new build developments (£3.8m).

Treasury Management – At the end of December, the council's borrowing totalled £193.4m at an average rate of 4.85%. Investment balances were £8.2m at an average rate of 0.12%.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved general capital plan is £41.7m with expenditure to date of £19.1m. Also included within Appendix 3 is the proposed expenditure of £31.4m 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 of 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 £2.2m.

21st Century Schools - In November 2016, Cabinet agreed for officers to develop a business case for a replacement building for Ysgol Llanfair. This proposed scheme would see the development of a new build school to accommodate 126 FT pupils and 18 part time pupils. The latest estimated cost is £5.3m with proposed funding through the Welsh Government's 21st Century Schools Programme and the Council's own resources in the Corporate Plan. The Strategic Investment Group reviewed the business case on 11th January 2017 and have made the following recommendations:

- Cabinet supports the submission of a Business Case for Ysgol Llanfair new school building to the Welsh Government.
- Cabinet supports in principle the proposed purchase of land at Llanfair to facilitate the development of the new school.
- Cabinet formally approves the overall budget of £5.369m as detailed in the business case.

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.