

Report To: Cabinet

Date of Meeting: 30th October 2018

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

Report Author: Steve Gadd, Chief Accountant

Title: **Finance Report (September - 2018/19)**

1. What is the report about?

The report gives details of the council's revenue budget and savings as agreed for 2018/19. 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 2018/19.

3. What are the Recommendations?

The following actions are recommended:

- 3.1 Cabinet Members note the budgets set for 2018/19 and progress against the agreed strategy.
- 3.2 Cabinet Members note and agree the use of reserves, underspends carried forward and the release of contingencies in order to help mitigate the overall budget pressures that the Council is facing.

4. Report details

The report provides a summary of the council's revenue budget for 2018/19 detailed in **Appendix 1**. The council's net revenue budget is £194.418m (£189.252m in 17/18). The position on service and corporate budgets is a forecast overspend of £1.164m (overspend of £0.811m in last report). Narrative around the current risks and assumptions underlying this assessment are outlined in Section 6.

The 2018/19 budget required savings and efficiencies of £4.6m to be identified and agreed. The table below gives a break-down of how the savings target was achieved. It can be confirmed that the £2m due to changes in the Minimum Revenue Provision and the £1m from wider corporate savings have both already been achieved. Service efficiencies of £1.2m and savings of £0.4m were agreed as part of the budget and are shown as **Appendix 2**. As the efficiencies form part of 'business as usual' for services it is assumed these will all be delivered. Any exceptions will be reported to Cabinet if required. The service savings will be monitored closely over the coming months and progress reported to Cabinet.

Savings/Efficiencies Agreed for 2018/19	£000	%age
Changes to Minimum Revenue Provision	2,000	43%
Corporate Savings identified in 2017/18	1,000	22%
Service Efficiencies (see Appendix 2)	1,200	26%
Service Savings (see Appendix 2)	411	9%
Grand Total	4,611	100%

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 explaining variances and risks are shown in the following paragraphs.

Customers, Communications and Marketing is currently projected to overspend by £40k (£49k reported in September). The pressure is largely due to higher than anticipated staff costs relating to maternity cover.

Highways and Environment is currently projected to overspend by £728k (£98k reported at last Cabinet). There have been a number of changes to the projected outturn since last month which are detailed below:

- **Major Projects** - This has been an issue over recent years. The main reason for the income shortfall relates to the amount of work and re-imburement coming from the North and Mid Wales Trunk Road Agency (NMWTRA). Following a presentation and discussion of the issues at the Reshaping the Council Board it has been proposed that an in-year budget allocation of £140k is released from centrally held contingencies in order to resolve this pressure on an ongoing basis. It is further proposed that a cash reserve of £159k, which had been kept in order to help fund the pressure in future years, is released in order to help fund the other pressures within the service.
- **School Transport** – as indicated in previous reports the service has been allocated additional funds following a full year of operating the revised transport policy relating to hazardous routes which was agreed last year. This exercise has now been complete and due to an above average number of school days this financial year a total of £300k additional budget allocation has been transferred to the service. Although it was hoped that this would be sufficient to deliver the service the following pressures have also been identified:
 - Changes to the policy relating to housing Denbighshire children in the Denbighshire special schools has resulted in an increase in special transport costs. These costs are especially high as they involve taxis and escorts. The overall impact of this change in approach which is not within the control of the Highways and Environment Service has led to an increase in costs of approximately £300k.
 - September is always a time when a number of new contracts come into force as exact numbers of school pupils are known. The overall increase in contracts amounts to £293k which largely relates to an increase in the overall number of pupils and contractors passing on inflationary pressure to the council.The new ongoing pressures identified in 2018/19 (amounting to £593k) are currently being discussed as part of the Medium Term Financial Plan for 2019/20 and beyond.
- **Streetscene** – The service has identified a statutory requirement to remedy an issue with 'Legacy Tips'. The overall one-off cost of this is estimated to be in excess of £200k. Further pressures within the service relate to additional time worked by staff to order to address issues raised by the public / Members (eg additional bin emptying in Rhyl during the hot summer months).
- **Waste** – A number of pressures are effecting the Waste service and the issues have been raised at the Budget Board. The majority of the pressure relates to new contract fees for the co-mingled waste contract. The pressure in 2018/19 will be funded from the Waste Reserve and a budget pressure of £850k has been included in the Medium Term Financial Plan for 2019/20.

Education and Children's Service is currently projected to overspend by £1.566m (£1.204m reported in September). The movement of £0.362m relates to the change in

mix of pupils in the September intake. The net effect of the changes is that there are 17 fewer external placements (including 4 high cost residential placements) from other Local Authorities, which results in a corresponding loss of income. DCC are prioritising places for DCC pupils in need and other Local Authorities are increasingly making other arrangements.

Children's Services continues to be an area of high risk due to the volatility in case numbers and inflationary pressures on placement costs. Each individual placement can be extremely expensive so any increase in numbers can have a large effect on the budget. The projected outturn includes all current out of county predicted placements to realistic timeframes. Education Out of County placements and recoupment income is less than budgeted due to the decrease in the numbers of pupils from other Local Authorities attending the Council's special school provision. Both pressures were part funded last year through the planned use of specific reserves and were considered as part of the 18/19 budget process and a funding pressure of £750k was agreed at Council on the 30th January. The reported overspend includes this budget contribution and it is recognised that further work is required to assess the financial implications of these pressures on the Medium Term Financial Plan for 2019/20 and beyond.

Facilities Assets and Housing is now projected to overspend by £88k due to an increase in the projected set up costs relating to the SC2 project. The total pressure of £277k has been mitigated by the service through the proposed re-focusing of £138k carried forward from 17/18 and the allocation of £54k from the income received from the Alliance Leisure Procurement Framework Agreement. There remains the option to capitalise some of the expenditure if further in year contributions cannot be identified.

Community Support Services is projected to break-even following an additional budget of £750k being allocated for 2018/19 and the planned use of reserves. Overspends within the Mental Health Service and In-House Provider Services remain areas of greatest pressure. The Medium Term Financial Plan includes an assumed budget requirement of an additional £500k per year although further work is ongoing to assess the full financial implications and the identification of actions to help mitigate the effect of these pressures.

Schools - The position with School Balances will continue to be carefully monitored and reported to Members on a monthly basis. Not only are Education Finance working closely with schools to help develop robust plans, but chief and senior officers in Education and Finance meet regularly to review those plans and take remedial action if necessary. The recent budget agreed by Council for 2018/19 included a total additional investment in schools delegated budgets of £1.8m. The level of school balances carried forward into 2018/19 is a net deficit balance of £0.343m, which was an improvement of £0.713m on the balances brought forward from 2016/17. At the end of September the projection for school balances is a net deficit balance of £1.061m, which is an increase in the projected deficit of £0.718m on the balances brought forward from 2017/18. The non-delegated budget is currently projected to underspend by £9k due to minor underspends.

The Housing Revenue Account (HRA). The latest revenue position assumes a decrease in balances at year end of £794k which is £164k more than the budgeted decrease of £630k. HRA balances are therefore forecast to be £1.408m at the end of the year. The Capital budget of £10.2m is allocated between planned improvements to existing housings stock (£6m) and new build developments (£4m).

Corporate – It is currently estimated that corporate contingencies amounting to £1.2m will be available to be released to help fund the service overspends (£0.5m projected last

month). The following items have been approved to be released in year in order to help fund the exceptional in year service pressures:

- The anticipated rise in Council Tax Reduction Scheme claimants has been less than predicted which means that £350k can be released.
- £150k had been set aside for increases in National Non-Domestic Rates (based on inflationary increases). However an ongoing exercise to review and challenge valuations means that this contingency is no longer required.
- £200k relates to a reduction in insurance costs following a re-tendering exercise.

Treasury Management – At the end of September, the council's borrowing totalled £207.551m at an average rate of 4.47%. Investment balances were £3.9m at an average rate of 0.6%.

A summary of the council's **Capital Plan** is enclosed as **Appendix 3**. The approved capital plan is £56.1m with expenditure to date of £17.2m. **Appendix 4** provides an update on the major projects included in the overall Capital Plan.

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

Well-being Impact Assessments for the savings included in Appendix 2 and the Council Tax rise was presented to Council on 30 January. An assessment for the MRP policy change was included in the report to Council in September 2017.

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. There were regular budget workshops held with elected members to examine service budgets and consider the budget proposals. 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 remain evident in social care budgets (both Adults' and Children's) despite additional investment of £1.5m in total for 2018/19. A similar situation is now evident in relating to School Transport despite additional investment of £0.6m in 17/18 and 18/19. The position for all these service areas will be monitored carefully and further considered as part of the budget process for 2019/20.

School balances will continue to be kept under close review. Not only are Education Finance working closely with schools to help develop robust plans, but chief and senior officers in Education and Finance meet regularly to review those plans and take remedial action if necessary.

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.