

**Report To:** Cabinet

**Date of Meeting:** 22<sup>nd</sup> January 2019

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

**Report Author:** Steve Gadd, Chief Accountant

**Title:** **Finance Report (December - 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?**

It is recommended that Cabinet Members note the budgets set for 2018/19 and progress against the agreed strategy.

**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 £0.756m (overspend of £0.964m 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. 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.

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%
<b>Grand Total</b>	<b>4,611</b>	<b>100%</b>

**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 £61k (£40k reported last month). The pressure is largely due to higher than anticipated

staff costs relating to maternity cover. The increase in overspend of £21k is due to £11k increase in the in-house cleaning / caretaking recharges for Libraries and £10k additional Contact 360 CRM corporate project costs relating to software licence fees.

**Legal, HR and Democratic Services** is currently projected to underspend by £91k (£88k underspend last month) largely due to staff vacancies which will contribute to the services saving proposals for next financial year.

**Highways and Environment** is currently projected to overspend by £818k (£806k reported last month). The following should be noted:

- **Major Projects** – Following a presentation and discussion of the issues at the Reshaping the Council Board it was proposed that an in-year budget allocation of £140k is released from centrally held contingencies in order to resolve this historic pressure on an ongoing basis.
- **School Transport** – additional funds have now been allocated to fund the full impact of the revised transport policy relating to hazardous routes which was agreed last year. 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.
  - The overall increase in contracts agreed from September now amounts to £318k which largely relates to an increase in the overall number of pupils and contractors passing on inflationary pressure to the council. A number of contracts are still out to tender which may impact on future projections.

The new ongoing pressures identified in 2018/19 has been factored into the current budget proposals as part of the Medium Term Financial Plan for 2019/20.

- **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 in 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 and 2019/20 will be funded from the Waste Reserve and a budget pressure of £900k has been included in the Medium Term Financial Plan for 2020/21.

**Education and Children's Service** is currently projected to overspend by £1.476m (£1.669m reported in December). The main reasons for the decrease in overspend relates to:

- A refund of £107K relating to Denbighshire's annual contribution to the Conwy and Denbighshire Joint Youth Offending Team. The refund relates to the identification of a balance held by Conwy from unspent funds from previous years.
- A further £98k relates to the application of the children's services element of the Sustainable Social Services Grant. This is a new Welsh Government grant for which we have just received formal notification of DCC's allocation.

Some of this decrease has been offset by small increases in projections elsewhere in the service.

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. The reported overspend takes account of a £750k budget contribution agreed as part of the 18/19 budget process. The financial implications of these pressures on the Medium Term Financial Plan for 2019/20 have been considered and an additional base budget allocation of £1.5m has been included in the current budget proposals which are also on this agenda.

**Facilities Assets and Housing** is projected to overspend by £42k (£87k overspend reported last month) largely 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. The further reduction from last month largely relates to a review of all commitments and close control of spend by the Head of Service. 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 (amounting to a further £800k contribution in 2018/19). This now takes into account Community Support Services share of the Sustainable Social Services Grant which amounted to £366k. 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 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 was 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 December the projection for school balances is a net deficit balance of £1.342m, which is an increase in the projected deficit of £0.999m 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 £1.050m which is £410k more than the budgeted decrease of £630k. The movement from last month is largely a result of a decision to increase the revenue contribution to the Capital programme therefore reducing the overall borrowing requirement. HRA balances are therefore forecast to be £1.162m 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 £1.55m will be available to be released to help fund the service overspends (£1.55m projected last month). Further work is ongoing in areas, such as the projection on the cost of council-

wide energy bills, the Capital Financing Budget, an in-year review of earmarked reserves and projections around the Council Tax Yield in order to help ensure that the call on General Balances are kept to a minimum.

**Treasury Management** – At the end of December, the council's borrowing totalled £224.884m at an average rate of 4.24%. Investment balances were £10.3m at an average rate of 0.52%.

A summary of the council's **Capital Plan** is enclosed as **Appendix 2**. The approved capital plan is £56.8m with expenditure to date of £30.8m. **Appendix 3** 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. Provision for these pressures have been included in the budget proposals contained within the Medium Term Financial Plan.

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.

Despite the release of further corporate contingencies the Council's overall overspend remains an area of concern. There may be additional corporate items which will further help the position such as indicated in Section 6. However it is possible that an in year overspend will need to be funded from General Balances (which would need to be replaced next financial year) unless in year cost saving initiatives across the Council can help bring the overspend on services down.

#### **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.