

Report To:	Cabinet
Date of Meeting:	26 th March 2019
Lead Member / Officer:	Cllr Julian Thompson-Hill / Richard Weigh, Head of Finance
Report Author:	Steve Gadd, Chief Accountant
Title:	Finance Report (February - 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 the proposed use of service carry forwards.
- 3.3 Cabinet Members approve the housing capital schemes in Aquarium Street and John Street, Rhyl, as recommended by the Strategic Investment Group and detailed in this report and Appendix 4.

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 £0.487m (overspend of £0.774m in last report). Narrative around the current risks and assumptions underlying this assessment are outlined in Section 6.

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 underspend by £31k (£7k overspend reported last month). The underspend relates largely to a delay in procuring new book deposit kiosks which will now take place early in the new financial year. The service hopes to carry forward £20k in order to pay for this expenditure.

Business Improvement and Modernisation is now projected to underspend by £92k. The movement largely relates to a delay in expenditure which will now occur in the following financial year, in particular the service wishes to carry forward underspend to fund the following commitments:

- £33k to fund transitional restructure costs within ICT to facilitate 19/20 savings.

- £9k relating to facilitating the Archives merger and clearing archiving backlog.
- £20k to fund exit costs to achieve future savings
- £10k for extending maternity cover and audit training

Legal, HR and Democratic Services is currently projected to underspend by £110k (£93k underspend last month) largely due to staff vacancies which will contribute to the services saving proposals for next financial year. The service hopes to carry forward the underspend in order to help fund possible exit costs relating to agreed service restructures.

Highways and Environment is currently projected to overspend by £757k (£814k reported last month). The following should be noted:

- **Major Projects** – It has been agreed in previous reports 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 £315k 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 budget proposals that were agreed recently by Cabinet and Council.

- **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 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 £1.469m (£1.528m reported in February). The main reasons for the decrease in overspend relates to staff vacancies and grant maximisation. 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 approved as part of the budget proposals recently agreed by Cabinet and Council.

Facilities Assets and Housing is projected to overspend by £44k (£68k overspend reported last month) The £24k decrease relates to reduced overspend relating to the SC2. Further work will continue to review of all commitments and maintain close control of spend by the Head of Service with the aim to reduce the overspend by the end of the year.

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 £1.050m contribution in 2018/19). The recent budget proposals approved by Cabinet and Council included an additional budget pressure of £500k for 2019/20 and the current assumption is that an equivalent pressure will be required in each of the 4 years of the Medium Term Financial Plan, although further work is ongoing to assess the full financial implications for future years.

Schools - Education and Finance continue to work closely with schools to help develop robust plans and 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. At the end of February the projection for school balances is a net deficit balance of £0.998m, which is an increase in the projected deficit of £0.655m on the balances brought forward from 2017/18. The non-delegated budget is currently projected to underspend by £14k due to minor underspends.

The Housing Revenue Account (HRA). The latest revenue position assumes a decrease in balances at year end of £1.031m which is £401k more than the budgeted decrease of £630k. HRA balances are therefore forecast to be £1.171m at the end of the year. The Capital budget of £10.2m is allocated between planned improvements to existing housing 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 February, the council's borrowing totalled £223.445m at an average rate of 4.25%. Investment balances were £5m at an average rate of 0.6%.

A summary of the council's **Capital Plan** is enclosed as **Appendix 2**. The approved capital plan is £52.69m with expenditure to date of £43.18m. **Appendix 3** provides an update on the major projects included in the overall Capital Plan.

In May 2018, Cabinet approved the submission of outline projects to the Welsh Government Targeted Regeneration Investment Programme. The Strategic Investment Group have recently reviewed a business case - West Rhyl Housing Project Phase 1 - which will deliver, in partnership with Pennaf Housing Group, the redevelopment and renovation of properties in West Rhyl. Specifically, this project involves the acquisition, clearance and redevelopment of properties accessed from Aquarium Street and John Street by the Council, and the renovation of properties already in the ownership of Pennaf Housing Group at 1 Crescent Road and 45/47 Water Street, Rhyl. The cost of the overall

proposal is £4.639m, with funding of £3.2m through the Council's Housing Revenue Account, £914k Welsh Government Targeted Regeneration Investment Grant and a contribution of £525k from Pennaf Housing Group. Within the overall proposal, the value of two proposed developments are over £1m, and as such require Cabinet approval. They are:

- **Aquarium Street, Rhyl** – Following the earlier acquisition of a terrace of large Victorian houses by the Council, the proposal is to convert these properties into eight individual energy efficient, affordable family homes for owner occupation. The cost of this development is £1.251m
- **John Street, Rhyl** – Welsh Government have previously acquired and cleared properties at John Street. The Council has acquired the site from the Welsh Government, and the proposal is to provide 15 accessible apartments for social rent, suitable for older residents. The cost of this development is £1.677m

The Strategic Investment Group have reviewed these proposals and recommend approval to Cabinet.

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

Specific pressures remain evident in social care budgets (both Adults' and Children's) and School Transport despite additional investment in 17/18 and 18/19. Provision for these pressures have been included in the budget proposals that have recently been approved by Cabinet and Council and are being taking into account when developing the new Medium Term Financial Plan for 2020/21 and beyond.

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.

Although there may be additional corporate items which will further help the overall position such as indicated in Section 6, it is likely that an in year overspend will need to be funded from General Balances.

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.