

Report To: Cabinet

Date of Meeting: 25th June 2019

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

Report Author: Steve Gadd, Chief Accountant

Title: Finance Report (2018/19 Financial Outturn)

1. What is the report about?

Cabinet has received regular monitoring reports throughout the financial year on the performance of expenditure against budget and savings agreed as part of the Medium Term Financial Plan. This report details the final position at financial year end.

The first draft of the Annual Statement of Accounts for 2018/19 has been submitted to the external auditors on 4th June. The audited accounts will then be presented to the Corporate Governance Committee in September for formal approval.

2. What is the reason for making this report?

To report the final revenue position and approve the proposed treatment of balances.

3. What are the Recommendations?

Cabinet Members are recommended:

- i) To note the final revenue outturn position for 2018/19
- ii) To approve the proposed treatment of reserves and balances as described in the report and detailed in Appendices 1, 2 and 3
- iii) To note the details of transfers to and from Earmarked Reserves as set out in Appendix 4

4. Report details

The final Revenue Outturn figures are detailed in Appendix 1, along with the proposed treatment of service year end balances. The final position on service and corporate budgets (including schools) is an underspend of £1.494m (0.77% of the net revenue budget). Taking account of funding, the variance on the total budget was an underspend of £0.481m. The main areas to note are reported below:

Schools - Although it remains a difficult financial period for schools, investment in school budgets in 2018/19 and the close working relationship between the Council and schools in producing robust 3 year financial plans, has resulted in an improved financial position for schools with schools reporting an in year underspend of £0.173m resulting in reduced net deficit position of £0.171m (down from £0.344m last year). 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. Currently there are 13 schools with deficit balances (21 last year), all of which continue to work closely with finance colleagues to develop and agreed action plan. Inflationary pressures for 2019/20 have been accounted for, alongside a 2% savings target, in total investment of £1m (excluding Welsh Government grants) included in the recent budget agreed by Council and it is hoped the financial position

for most schools will continue to be consolidated during 2019/20. Individual school balances are detailed in Appendix 3.

Community Support Services – although the service is showing as break-even this is, as indicated in previous reports, after additional budget of £750k being allocated for 2018/19 and the planned use of reserves (amounting to a further £1.162m 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.

Education and Children's Service – the service has a net overspend of £1.133m. 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.

Highways and Environment Services overspent by £527k. The following should be noted:

Major Projects – an in-year budget allocation of £140k was 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 approximately £300k which largely relates to an increase in the overall number of pupils and contractors passing on inflationary pressure to the council.

The new ongoing pressure identified in 2018/19 has been factored into the budget proposals that were agreed recently by Cabinet and Council.

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.

Facilities, Assets and Housing has underspent by £78k due to the early achievement of 2019/20 saving commitments and higher than predicted income from the Leisure Partnership Agreement.

Legal, HR and Democratic Services was underspent by £66k largely due to staff vacancies which will contribute to the services saving proposals for next financial year.

Business Improvement and Modernisation underspent by £36k. The underspend is due vacancy savings and the early achievement of efficiency savings.

Customers, Communications and Marketing underspent by £45k. The underspend relates largely to a delay in procuring new book deposit kiosks which will now take place early in the new financial year.

Finance underspent by £26k due to vacancies and grant maximisation.

Appendix 4 details the transfers to and from Earmarked Reserves in full. The majority of the movements have been budgeted for or have been approved in previous monitoring reports to cabinet. In particular it shows the planned use of funds to cover overspends in Community Support Services (Adult Social Care Reserve) and Highways and Environment (Sustainable Waste Management Reserve). A new Modified Loan Reserve has been created (£4.7m) as a consequence of a technical adjustment to the treatment of a set of historic loans in response to a new International Financial Reporting Standard (IFRS 9). The adjustments effectively change the interest rate profile which means we need to recognise an historic gain but will need to use the reserve to neutralise the impact of higher effective interest charges to the Comprehensive Income & Expenditure Statement over the remaining life of the loans.

Underspends relating to Corporate Budgets amounting to £2.673m the majority of which has been reported during the year. The most significant change since the previous report is the variance between the estimated and actual pension contribution recovery rates.

Due to the improved service position and planned release of corporate contingencies and better than expected Council Tax collection rate the Final Outturn position has only required utilising £780k of the planned £2m from the Budget Mitigation Reserve. The change results in securing the £2m funding required for the 2019/20 budget and leaving £1m available to further mitigate the effects of future funding reduction from 2020/21 and beyond.

Given the overall position within services and the availability of corporate funds, it is proposed that services carry forward the net under spends listed as Committed Service Balances in **Appendix 1** to help deliver the 2019/20 budget strategy and meet existing commitments. **Appendix 2** summarises the service proposals.

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?

The council's net revenue budget for 2018/19 was £194m. The final position on service and corporate budgets was a net underspend £1.494m (0.77% of the net revenue

budget. Taking account of funding, the variance on the total budget was an underspend of £0.481m. Where services have highlighted legitimate expenditure commitments against 2018/19 balances, it is proposed that those services carry the net balance forward to 2019/20. The position within each service and intended use of brought forward service balances will be reviewed during 2019/20.

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.

10. What risks are there and is there anything we can do to reduce them?

This remains the most challenging financial period the council has faced 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.