

**Report To:** Cabinet  
**Date of Meeting:** 22<sup>nd</sup> October 2019  
**Lead Member / Officer:** Cllr Julian Thompson-Hill  
**Report Author:** Steve Gadd, Chief Accountant

**Title:** **Finance Report (September 2019/20)**

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**1. What is the report about?**

The report gives details of the council's revenue budget and savings as agreed for 2019/20. 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 2019/20.

**3. What are the Recommendations?**

It is recommended that

- i) Members note the budgets set for 2019/20 and progress against the agreed strategy.
- ii) Members approve the transfer of cash funds from the Savings Achievement Contingency to Leisure Services to offset the need to allocate the Prudential Borrowing savings to the SC2 rather than the delay to setting up the Alternative Delivery Model.

**4. Report details**

The report provides a summary of the council's revenue budget for 2019/20 detailed in Appendix 1. The council's net revenue budget is £198.538m (£194.418m in 18/19). The position on service and corporate budgets is a forecast overspend of £1.733m (£1.379m last month). Narrative around the current risks and assumptions underlying this assessment are outlined in Section 6.

The 2019/20 budget required savings and efficiencies of £5.672m to be identified and agreed as detailed below:

- Corporate savings identified in 2018/19 (£0.5m)
- Schools savings of 2% (£1.32m)
- Service efficiencies and savings (£3.852m)

As promised last month the service savings have been reviewed and most are on target to be delivered. However, it has become clear that the total saving of £850k relating to the ADM Proposal ("savings in NNDR and VAT arise from creating a Local Authority owned not-for-profit trading company. The savings can only be realised when the company is formed. However, cash savings from deferring borrowing charges on the SC2 facility are possible in advance of the company being formed.") will not now be achieved in full. The original Business Case for the SC2 had shown a deficit in the first year of £378k but with a commitment to try and bring this down through a number of options. One option was to utilise the delay in charging Prudential Borrowing for the first year as illustrated in the report extract below:

A number of options are being considered to address the funding requirement in years 1-4. These include contributions from services, reserves and would be incorporated into the council's budget strategy for those years. A further consideration is that if the facility is not fully operational by April 2019, the borrowing costs could be deferred for a year, potentially completely removing the funding requirement for the first, second and third years. Facilities, Assets and Housing and Economic Development budgets have identified potential revenue savings that could contribute to the cash-flow requirement if needed. In addition there is scope to use reserves if needs be. Corporate financial support would be available to provide cash flow if for any reason the above were insufficient but this is thought to be unnecessary at this stage, particularly if borrowing is deferred for one year.

The report also stated that:

In approving the recommendation, the Council should therefore also accept the risk that if the facility does not achieve the business case model, either through unforeseen additional costs, lower income results or a combination of both, then it will create a financial pressure to be funded in future years. The model as presented achieves a break-even position in Year 5 of operation but there is a funding gap in Years 1-4. A number of funding options have been identified that will provide the cash-flow to cover the gap.

As a Council it was decided to use the lever of the delay to Prudential Borrowing to enable the ADM saving of £850k to be taken as part of the 2019/20 budget process, thus reducing the need for service cuts elsewhere. A contingency budget was set aside, as in most previous years, in order to cope with savings that have failed to be achieved. In this instance the service is confident it will move substantially towards a break even position as part of the ADM next financial year so it is recommended at this stage that only a cash contribution of £616k is transferred from the Savings Achievement Contingency to Leisure Services. The service plans will be scrutinised carefully as part of the approval of the 3-year Business Plan for the Denbighshire Leisure Company during the coming months. Any changes to the current assumptions will be reported to Cabinet in future reports.

**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.

**Community Support Services** – Adults Social Care is currently projected to overspend by £205k (£519k last month). This projection assumes that the remaining service reserve of £821k is applied in year. The reduction from last month relates to a projected application of an in year grant for winter pressures. The underlying pressure of £1.3m has been included in the current MTFP for 2020/21 and will be kept under review over the coming months.

**Education and Childrens' Service** is now showing an overspend of £1.079m (£0.967m last month). This includes all current high cost residential and independent fostering placements costed to realistic timescales. No allowance has been made for any further new placements within the financial year. The main pressure area is within high cost placements which has a current predicted overspend of £1.162K. Some of this pressure is offset by a sustainable pressures grant (£198K) and underspends on staffing due to vacant posts. The placement pressure has been caused by 5 new residential

placements and 7 new independent fostering placements which commenced this financial year. The highest cost residential placement is £6,360 per week. As can be seen each individual placement can be extremely expensive so any increase in numbers can have a large effect on the budget. The Education element of Out of County and Recoupment is now projected to overspend by £112k following the finalisation of pupil numbers which has resulted in a further shortfall in income from other Local Authorities attending our special schools.

**Business Improvement and Modernisation** is currently projected to underspend by £59k (£53k underspend last month) largely due to a number of vacancy savings. A number of IT contracts are currently under negotiation which may increase costs going forward.

**Legal, HR and Democratic Services** is now projected to underspend by £37k (£54k underspend last month) relating to vacancy savings in preparation of a service review and an increase in Registrars income. Additional exit costs have reduced the underspend slightly.

**Highways and Environment Service** – is now projected to overspend by £390k. The main areas of concern are:

- **Waste Service** – The service is currently £1.4m overspent, but is utilising £1.2m from the Waste Services Reserve. This is only possible for one more year and a pressure of £0.9m has been included in the Medium Term Financial Plan for 2020/21.
- **Streetscene** – Although funding has been allocated to the clearing up of Legacy Tips, it appears that additional costs will be incurred. An assessment of these have been included in the projections.
- **Winter Maintenance** – The current budget, alongside the severe weather reserve, is sufficient to cope with a normal winter. Any severe weather is likely to require the identification of additional cash resources to cover the costs.

**Planning and Public Protection** – following the transfer of School Transport to this service, it is now projected that the service will overspend by £568k. School Transport has been allocated £900k additional funds during the two previous budget rounds. However as highlighted in previous years the service remained an area of concern and is very much linked to policy and service changes within Education. The figure represents the most accurate projection we can provide based on latest pupil numbers, routes and contracts for the new academic year.

**Schools** - The budget agreed by Council for 2019/20 included a total net additional investment (excluding increases in Welsh Government grants) in schools delegated budgets of just over £1m. The latest projection for school balances to be carried forward into 2020/21 is a net deficit balance of £1.137m (£0.953m last month), which represents an increase of £0.966m on the deficit balances brought forward from 2019/20 of £0.171m. The figures include the application of a reserve set aside from Corporate underspends last financial year to fund the large deficit balance of Blessed Edward Jones as we, as the Local Education Authority, are legally obliged to do. There is a small underspend in non-delegated budget of £32k.

**Corporate Budgets** – Contingencies set aside during the budget process last year have been released in order to help fund the service overspends described above resulting in a reported underspend of £1.028m. It is recommended above that £612k of this is allocated in year to cover unachieved efficiency savings. There may be further resources

available (around Council Tax Yield etc) later in the financial year, however if projections remain the same £1.7m would need to be funded from Base Level Reserves.

**The Housing Revenue Account (HRA).** The latest revenue position assumes a decrease in balances at year end of £285k which is £128k more than the budgeted decrease of £157k. HRA balances are therefore forecast to be £1.398m at the end of the year. The Capital budget of £14.3m is largely allocated between planned improvements to existing housings stock (£5.2m) and new build developments and acquisitions (£8.1m).

**Treasury Management** – At the end of September, the council's borrowing totalled £229.3m at an average rate of 4.16%. Investment balances were £5.6m at an average rate of 0.56%.

A summary of the council's **Capital Plan** is enclosed as Appendix 3. The approved capital plan is £37.31m with expenditure to date of £11.12m. 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 29 January.

**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), School Transport and Waste services despite the investment included in the 2019/20 budget. These are base budget and therefore ongoing pressures and the position for all areas will be monitored carefully and further considered as part of the budget process for 2020/21.

Forecasts indicate school balances will decrease this financial year, however it still very early in the financial year and the position will 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. We are particularly working closely with a small number of schools who are experiencing particularly difficult circumstances.

**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.