Annex 1

Report To:	**CABINET**
Date of Meeting:	**20th March 2012**
Lead Cabinet Member:	**Lead Member (Finance and Efficiency)**
Lead Officer:	**Head of Finance & Assets**
Title:	**Finance Report**

1 What is the report about?

The report gives a forecast position for the council's revenue budget and performance against the budget strategy for 2011/12 as at the end of January 2012. The report also gives a summary update of the Capital Plan, the Housing Revenue Account and Housing Capital Plan.

Part of the report concerns a recommendation from the Strategic Investment Group in relation to a capital project at the Fleet Management depot in Bodelwyddan.

2 What is the reason for making this report?

The report advises members of the latest financial forecasts in order to deliver the agreed budget strategy for 2011/12 as defined in the Medium Term Financial Plan, the Capital Plan and the Housing Stock Business Plan.

3 What are the Recommendations?

Members note the latest financial position and progress against the agreed budget strategy.

Members approve the recommendation of the Strategic Investment Group.

4 Report details

The latest revenue budget forecast is presented as **Appendix 1** and shows a net under spend of £846k on council services (£753k last month) plus £400k on corporate budgets, including the provision for slippage in this year's savings target of £300k. There are also variances within some services compared to original forecasts but these are being managed within the services.

The forecast position for schools shows an over spend of £505k (£396k last month). Further details of departmental budget performance are shown below. The Housing Revenue Account summary is also included in Appendix 1 for information but this is a separate fund and not part of the council's revenue budget.

Appendix 2 to this report gives an update showing progress against the savings and pressures agreed as part of the 2011/12 budget setting process. In total, net savings of £6.359m were agreed and £6.024m (95%) have been achieved with £0.275m (4%) still classed as in progress. The items remaining as 'in progress' are those that cannot be confirmed until the end of the year, though all should be achieved.

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?

This section of the report is used to highlight any key variances from budget or savings targets, risks or potential additional savings that may arise throughout the year and to give a more general update on the Capital Plan and the Housing Revenue Account.

Revenue Budget - The revenue budget for services to the end of January shows a projected under spend of £846k (£753k last month). There is also an under spend within corporate budgets. Details are shown below:

The under spend in **Business Planning & Performance** is primarily related to the budget for the administration of the Cymorth grant and the winding down of the current grant. It was agreed at the last service challenge that this could be reviewed as a possible budget saving in future if the net departmental position continues to show an under spend.

A small under spend of £12k is reported in **Leisure, Libraries & Community Development** as a result of delays filling vacant posts.

The **Finance and Assets** budget is forecast to be under spent by £20k, generally as a result of staff vacancies. **Property Services** budget continues to face pressure on fee income targets though this has reduced significantly throughout the year and the department has made savings across supplies and services budgets and is now forecasting a balanced budget.

PFI - The original PFI business case model was constructed using much higher interested rates than the council currently achieves, or is likely to achieve in the medium term. The model assumed investments could be made in the early years of the project which would provide a sufficient return to fund costs in later years. Therefore, provision is being made to ensure there isn't a funding gap in future years.

Highways & Infrastructure shows a forecast position of £263k under spend (£217k last month). As reported in detail previously, the department has achieved the departmental savings target of £150k and a further £100k in relation to procurement savings on school transport. The budgets for road maintenance are currently forecasting an under spend and this has increased from last month in total, but within this is the budget for general and winter maintenance which is subject to significant swings in demand depending on weather conditions and other factors.

The **Regeneration, Planning & Public Protection** The department is forecasting an under spend of £215k (£228k last month). The under spend includes the priority funding of £145k for 2011/12 for the development of Town Plans and community projects which is currently unspent but will be committed in 2012/13. The service is now waiting for proposals to be considered to ensure they contribute fully to the council's corporate objectives.

Adult Services budgets are shown as balanced but assume that approximately £171k of Supporting People grant will be used to fund pressures within the year (£208k last month). This was part of the strategy agreed at the service challenge in 2010 to manage in-year cost pressures. However, the subsidy from Supporting People will be reducing and ultimately removed so underlying pressures will have to be addressed in the medium term. The outturn as forecast however in the current year allows for the Supporting People reserve to be increased but this is unlikely to happen in future. The overall position within Adults has improved this month and is the net impact of additional costs of residential and nursing care in some localities being offset by reductions in others, plus several charges made against the property of people formerly in care have been realised this month.

Children & Family Services are forecasting an under spend of £122k (£102k last month). There are two main reasons for this: the first is that a number of adoptions that were hoped to be completed before the year-end will now be finalised early in the new financial year - there is a cost associated with each case. The second is that a surplus residential care place is being used by another local authority and so generates income for the council.

The **Environment Services Department** has a budget savings target of £541k in 2011/12 and will be achieved in full. The department is forecasting an under spend for the year. The projected under spend is now £82k (£69k last month). The change is due to reduced expenditure within the cemeteries function as a result of the changes to workforce regulations covering agency employment.

The savings targets within **Customer Services** total £271k this year. Of this, £126k is in relation to procurement efficiencies and is on target. It can be assessed more effectively as actual expenditure on consumables is reviewed at the end of the year. An under spend of £40k is forecast over the departmental budget due to delays in recruitment. If departmental balances are carried forward, it is proposed to use some of this for investment in the intranet in 2012/13.

Expenditure on **corporate budgets** (including bank charges, audit fees and pension back-funding budgets) has been less than anticipated and this should generate an under spend of £100k. Collection rates on **council tax** have remained high this year which will have a positive impact on the yield at year-end and may generate a cash surplus. However, the reform to council tax benefits is likely to reduce collection rates in future years which will impact on the resources available to the council.

Schools – The movement on school balances is now forecast to be a reduction in overall balances of £505k (£396k last month). The position includes seven schools in financial difficulty. Schools with a forecast deficit position are required to submit proposals to achieve a balanced budget. Schools with an over spend at year-end will carry the deficit balance forward. There are currently 11 schools with balances in excess of 8% of their total budget, 12 schools holding balances in excess of 5% and 11 schools within the recommended range of between 2% and 5%.

Capital Plan – Expenditure to the end of February is £23.2m against a plan of £30.9m for the year. **Appendix 3** shows a summary of the current plan and how it is financed. **Appendix 4** gives an update of major projects.

Attached as **Appendix 5** ***(Part II)*** is a capital investment proposal concerning the Fleet Depot at Bodelwyddan *(this document is confidential and presently excluded from public disclosure by virtue or paragraph 14 of Part 4 of Schedule 12A to the Local Government Act 1972)*. It is being recommended for approval after having been considered by the Strategic Investment Group on the 8th March.

Housing Revenue Account (HRA) – The latest HRA forecast shows a planned in-year deficit of £1.109m (£1.117m last month) against an original budget of £1.025m. The forecast deficit is currently £94k higher than the original budget. The planned in-year deficit arises as £1.3m of revenue budget is to be used to fund capital expenditure as part of the agreed Housing Stock Business Plan for 2011/12. The Business Plan remains viable and based on the latest forecast, the HRA balance carried forward will be £899k (£892k reported last month).

The Housing Capital Plan forecast outturn has reduced to £5.354m (£5.413m reported last month) compared to the budgeted estimate of £5.969m for the year. Major Improvement Contracts 4 and 5 have been reviewed and the value of works estimated to be completed this financial year has been reduced. Both contracts are currently estimated to be over the original contract sums due to additional costs being identified, such as the removal of asbestos (as reported last month), but the expenditure within the year will be less than planned. The work will roll forward into next year’s improvement plan. The achievement of Welsh Housing Quality Standard by the end of 2012/13 remains on target and the latest expenditure forecasts do not affect the viability of the Housing Stock Business Plan. A detailed stock condition survey is planned for early 2012/13 and this will help inform capital investment and business planning assumptions going forward. A summary of the latest HRA position is shown in the table below.

Housing Revenue Account & Capital Plan Summary:

Housing Revenue Account Summary 2011/12 February 2012	
Expenditure	**£'000**
Housing Management & Maintenance	5,380
Capital Charges	2,585
Subsidy	3,079
Provision for Bad Debts	26
Revenue Contribution to Capital	1,341
Total Expenditure	**12,411**
Income	
Rents	11,138
Garages	155
Interest	9
Total Income	**11,302**
In Year Deficit	**1,109**
HRA Balance Carried Forward	**899**

Housing Capital Plan February 2012	£,000
Planned Expenditure	5,354
Funded By:	
Major Repairs Allowance	2,400
Revenue Contribution	1,341
Capital Receipts	65
Borrowing	1,548
Total	**5,354**

7 What consultations have been carried out?

The revenue budget was recommended by cabinet and agreed formally by council after an extensive round of service challenges. The capital plan was approved by council following scrutiny by the Capital & Assets Strategy Group (now called the Strategic Investment Group) and recommendation by cabinet. The Housing Revenue Account has been approved following consultation with elected members and tenant federation representatives.

8 Chief Finance Officer Statement

The delivery of the savings target for this year is a significant achievement. The savings that remain as in-progress will be confirmed by the end of the year. 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.

As predicted, the overall position has continued to improve and part of this improvement is because of progress being made in the delivery of next year's savings. Some corporately held budgets for specific provisions that are committed in future years will generate a cash surplus in the current year.

Economic Commentary & Treasury Management Update

Financial markets continue to be very volatile and this is causing problems as the number of institutions with which the council can invest is very limited. Earlier in the year, the council decided to limit all investments to six months as a prudent measure. More recently, the ratings of a number of UK banks have been downgraded. This has a direct impact on the council's treasury management strategy and meant that amendments had to be agreed to the strategy for the current year to allow the council to place cash on deposit with its appointed bankers. Deposits with other UK banks have now been limited to one month. The council is continually exploring all prudent options to ensure that investments are secure whilst also trying to achieve the most reasonable returns possible in the circumstances.

Due to lower than anticipated borrowing costs this year, there will be a surplus in the capital financing budget. This is because additional borrowing was not required as originally planned. This will be used to reschedule debt before the end of the financial year and will provide a small reduction in the council's overall borrowing costs.

Total borrowing currently stands at £136m at an average rate of 5.73% and total investments are £27.0m at an average rate of 1.45%.

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

This is 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 and early reporting of variances will help ensure that the financial strategy is achieved.

Specific risks are apparent when dealing with capital projects and can include expenditure or time overruns, funding issues and other non-financial considerations. A robust approval mechanism and close financial monitoring and reporting, along with effective project management procedures, help to minimise these risks.

The HRA is undertaking a considerable capital investment to improve the housing stock and using borrowing and grants to fund the works. Any borrowing must be affordable and the regular monitoring and annual approval and viability assessment of the Housing Stock Business Plan ensures that this is so.

10 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.