Report To: CABINET

Date of Meeting: 24th April 2012

Lead Cabinet Member: Councillor Julian Thompson-Hill

Lead Officer: Paul McGrady, Head of Finance & Assets

Title: Finance Report

1 What is the report about?

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

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.

4 Report details

The latest revenue budget forecast is presented as **Appendix 1** and shows a net under spend of £841k on council services (£846k last month) plus £500k 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 £350k (£505k 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 £6.163m (97%) have been achieved with £0.136m (2%) still classed as in progress. The items remaining as ‘in progress’ are those that cannot be confirmed until analysis is completed at the end of the year, though all should be achieved or if not, will be replaced.

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 March shows a projected under spend of £841k (£846k last month). This represents a variance of less than 1% on a gross budget of almost £148m. There is also an under spend within some of the corporate budgets. The total variance is just over 1% on a gross budget of nearly £208m. 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.

A small under spend of £10k 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.

PFI - The original PFI business case model was constructed using much higher interest 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 £242k under spend (£263k last month). Lower expenditure on winter maintenance budgets has contributed to the overall position this year.

The **Regeneration, Planning & Public Protection** The department is forecasting an under spend of £175k (£215k last month). The movement this month relates to additional expenditure on the Rhyl Going Forward budget and the inclusion of some one-off redundancy costs.

Adult Services budgets are shown as balanced but assume that approximately £170k of Supporting People grant (£171k last month) will be used to fund pressures within the year. 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 from 2012/13 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.

Children & Family Services are forecasting an under spend of £159k (£122k last month). There are a number of reasons for the movement this month including a specialist placement ending earlier than planned, savings on vacant posts and PC replacement costs being less than forecast.

The **Environment Services** The department is forecasting an under spend of £59k (£82k last month). The change is due to new pressures on the Coastal Facilities budget mainly as a result of being unable to achieve the income target for rent on the Children's Village.

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 £60k 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 £200k. Collection rates on **council tax** have remained high this year which will have a positive impact on the yield at year-end and will 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 and it would be prudent to make some provision to help manage the impact.

Schools – The movement on school balances is now forecast to be a reduction in overall balances of £350k (£505k 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.

Capital Plan – The estimated outturn is £34.2m. **Appendix 3** shows a summary of the current plan and how it is financed. **Appendix 4** gives an update of major projects.

Housing Revenue Account (HRA) – The latest HRA forecast shows a planned in-year deficit of £1.306m (£1.109m last month) against an original budget of £1.025m. The forecast deficit is currently £281k 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 £703k (£899k reported last month).

The main movement this month relates to the Repair & Maintenance (R&M) budget where the forecast expenditure has increased by £200k. This is due to a number of issues, including the additional cost of a new gas servicing contract and the funding of pension strain costs within the year. Also included is additional one-off expenditure invested toward the end of the year in reducing the backlog of repair and maintenance jobs outstanding. This additional work amounted to around £100k and will help ensure that the backlog of works is kept at a more manageable level in future. The HRA budget is being reviewed for 2012/13 with a zero based approach being introduced and a notional trading account being introduced within the R&M element to help monitor costs and performance more closely.

The Housing Capital Plan forecast outturn has increased to £5.607m (£5.354m reported last month) compared to the budgeted estimate of £5.969m for the year. The increase is largely due to rescheduled omissions and works brought forward from Improvement Groups 6, 7 & 8, which were scheduled to start in 2012/2013. 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 will be completed in 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 March 2012	
Expenditure	**£'000**
Housing Management & Maintenance	5,576
Capital Charges	2,591
Subsidy	3,079
Provision for Bad Debts	26
Revenue Contribution to Capital	1,341
Total Expenditure	**12,613**
Income	
Rents	11,143
Garages	155
Interest	9
Total Income	**11,307**
In Year Deficit	**1,306**
HRA Balance Carried Forward	**703**

Housing Capital Plan March 2012	£,000
Planned Expenditure	5,607
Funded By:	
Major Repairs Allowance	2,400
Revenue Contribution	1,341
Capital Receipts	65
Prudential Borrowing	1,801
Total	**5,607**

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 forecast outturn position is welcome and demonstrates that services are working toward achieving this year's financial pln. The delivery of the savings target for this year is a significant achievement and the latest position gives a good platform to ensure that next year's targets can be met. 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

The financial markets remain volatile and this continues to limit the number of institutions with which the council can invest. Earlier in the year, the council decided to limit all investments to six months as a prudent measure. As the ratings of some UK banks were then downgraded, the council's treasury strategy had to be amended during the year and deposits with UK banks were limited to one month. This has now been extended to 90 days. 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.