

Report To: CABINET

Date of Meeting: 19th June 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 details of the council's revenue budget and savings as agreed for 2012/13 as at the end of May 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 format of the budgets and sets out the reporting structure for the coming year. At this stage there are no deviations from the agreed budget strategy for 2012/13 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 budgets and savings targets for the year and progress against the agreed budget strategy.

4 Report details

The latest revenue budget forecast is presented as **Appendix 1** and shows a balanced position across all services, including schools and corporate budgets.

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 2012/13 budget setting process. In total, net savings of £3.443m were agreed and £0.428m (12%) has been achieved with £3.015m (88%) still classed as in progress. Although most items are still classed as 'in progress' none of the savings listed are thought to be unachievable. A more detailed analysis will be presented in July which should show more significant progress.

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 will be 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. The position at this stage of the year assumes no variances from the agreed budgets but this position will change as the 2011/12 accounts are finalised and the position regarding carry-forward balances is clearer.

It should be noted that the under spend that was forecast against Children & Family Services toward the end of 2011/12 had to be used to fund disallowed grant expenditure against the 'Genesis' scheme. This amounted to approximately £140k and arose because of a lack of sufficient evidence produced by partner organisations and some council departments, which meant the grant claims could not meet the appropriate standard.

Undoubtedly, other variances will emerge across services as the year progresses.

Capital Plan – The estimated outturn is £34.2m. **Appendix 3** shows a summary of the current plan and how it is financed. Future reports will provide an update on major capital projects as the Plan develops throughout the year.

Housing Revenue Account (HRA) – The latest HRA forecast shows a planned in-year surplus of £71k. This includes funding capital expenditure of £602k from revenue as part of the agreed Housing Stock Business Plan for 2012/13. The Business Plan remains viable and based on the latest forecast, the HRA balance carried forward will be £963k.

The Housing Capital Plan is forecast to spend £7.5m in 2012/13 which is part-funded by prudential borrowing (£4.4m). The achievement of Welsh Housing Quality Standard by the end of 2012/13 remains on target and a detailed stock condition survey is being completed currently. This survey 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:

<u>Housing Revenue Account Summary 2012/13</u>	
<u>May 2012</u>	
Expenditure	£'000
Housing Management & Maintenance	5,414
Capital Charges	2,648
Subsidy	3,148
Provision for Bad Debts	29
Revenue Contribution to Capital	602
Total Expenditure	11,841
Income	
Rents	11,750
Garages	157
Interest	5
Total Income	11,912
In Year Surplus	71
HRA Balance Carried Forward	963

<u>Housing Capital Plan</u>	
<u>May 2012</u>	£,000
Planned Expenditure	7,452
Funded By:	
Major Repairs Allowance	2,400
Revenue Contribution	602
Capital Receipts	17
Prudential Borrowing	4,433
Total	7,452

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 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

This report highlights the revenue and capital budgets as agreed for 2012/13 and demonstrates how the council's finances will be reported to Cabinet throughout the year. Services are expected to deliver the savings agreed through the Service Challenges and budget setting processes and have so far been successful in doing so. The next report will allow a more informed outturn position to be forecast as the final position for 2011/12 and its impact on the 2012/13 budgets is confirmed. 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.

Economic Commentary & Treasury Management Update

The financial markets remain extremely volatile and this continues to limit the number of institutions with which the council can invest and the length of investments the council can make. Both of these issues limit the returns the council can achieve. To put this into context, in 2008 the council could expect to earn around £2.5m in interest on investments (the council typically has between £20-£30m to invest). This year the yield is likely to be £250k, around one tenth of what was earned before the banking crisis. The council's treasury strategy puts the safety of investments ahead of yield though prudent options are always considered if appropriate. During the course of the last year, the council limited investments with banks from one year to six months. It was then reduced further to 90 days. More recently this was reduced to 30 days and in the past two weeks, the council has opted to limit almost all deposits to one day. There are two institutions with which funds could be placed for up to one week. With the current instability in the Eurozone and the potential for contagion if a significant bank were to fail or a country were to default, the council's current investment strategy is likely to continue for the medium term.

Total borrowing currently stands at £135m at an average rate of 5.74% and total investments are £34.5m at an average rate of 0.94%.

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.