

**Report To: CABINET**

**Date of Meeting: 23<sup>rd</sup> October 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 September 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?**

To update members on the current financial position of the Council

**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 small under spend across all services, including schools.

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 main 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 £2.153m (63%) have been achieved with £1.290m (37%) classed as in progress. Although items are still classed as 'in progress' none of the savings listed are thought to be unachievable. The corporate saving target around the conversion of some essential car users to casual user status and the impact of changing the disregard rules applicable to home to work business travel will be achieved and the figure confirmed next month.

## 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. The position to the end of September shows that most services expect to achieve a balanced budget. Detailed below are areas that require further explanation.

At the end of 2011/12, revenue balances totalling £1.3m were carried forward by services. Included in the following section this month are details of the balances carried forward and an update of the latest assumptions and progress in relation to use of revenue balances carried forward.

### **Service Budgets**

**Business Planning & Performance** carried an under spend forward of £182k. Of this, £78k has been spent or committed to funding a number of initiatives, including Prince2 training and a participatory budget initiative.

**Legal & Democratic Services** carried a balance forward of £28k and £10k has been used to fund in-year pressures.

**Finance & Assets** – a balance of £140k was carried forward and has been used to fund a number of additional costs such as a temporary post within Procurement and cost pressures within Internal Audit and Revenues & Benefits. In Property, costs associated with work completed at Rhyl Sun Centre and the Sky Tower have been funded.

**Highways & Infrastructure** - the balance carried forward was £261k. A number of one-off costs have been funded including changing coin mechanisms on parking meters, contributing to the cost of bus shelters as part of the Prestatyn Bus Station development, Olympic Torch events and replacing hand-held technology for parking enforcement. Other proposals have been put forward and are still being assessed.

**Planning & Regulatory Services** – a balance of £52k was carried forward and is being used to fund restructure costs in the current year.

**Adult Services** budgets are shown as balanced but at this stage assume that approximately £320k of the Supporting People Reserve will be used to fund the pressures within year. This was part of the strategy agreed at previous Service Challenge meetings and the specific reason for the original creation of the Reserve.

**Strategic HR** – carried a balance forward of £39k. Of this, £10k has been committed to funding in-year costs and the remainder was earmarked to contribute to the costs of restructuring the Health & Safety department.

**Environment** carried a balance forward of £89k. Of this, £69k has been used to fund a combination of restructure costs, land purchase (Loggerheads) and to fund the outcome of a backdated rent review in favour of Bodelwyddan Castle Trust.

**School Improvement & Inclusion** carried a balance forward of £321k. This is earmarked to fund costs associated with both the regional service and school reorganisation within Denbighshire. There may also be a need to provide some transitional protection to schools as the new funding formula is introduced.

**Modernising Education & Customer Care** budgets are currently projecting a small under spend of £45k. These are in year surpluses due to a staffing restructure which is currently being implemented. The Modernising Education element of the service carried a balance forward of £39k.

The Customer Services department as was (prior to the recent corporate restructure) carried a balance forward of £107k. Of this, £58k has been used to fund costs within ICT and Press & Public Relations, including intranet development and restructure costs.

**Regeneration** – the department was within Planning & Regulatory Services last year and carried a balance forward of £90k which has been used to offset pressures in the current year.

The position at this stage of the year in relation to balances carried forward is that £1.1m has been spent or committed meaning £220k of the total is currently uncommitted and potentially available for reallocation.

**Schools** - as at the end of September the projection for school balances is £1.876m. This is a positive movement of £75k from the balances of £1.801m brought forward from 2011/12. The council is currently working with two schools that are in financial difficulty with deficit balances totalling £439k. These schools have recovery plans in place and are actively working to the targets set out in these plans.

### **2012/13 Budget Assumptions**

During the preparation of the 2012/13 budget a number of assumptions were made about pressures that the Council would face and appropriate budgets were put in place. Two major pressures were the likelihood of a pay rise for staff and significantly increasing energy costs. As such the Council budgeted around £1.5m to cover these costs.

The rise in energy prices was much smaller than had been anticipated and this, coupled with a significant reduction in consumption meant that the price rise could be contained within existing budgets. The price rise was not agreed

until after the budget had been set and therefore the additional budget was not required.

Similarly the Council budgeted for a pay rise for staff, but this did not happen. However the pay freeze was confirmed after the budget had been set and so the Council had a budget for a pay rise that would not now happen.

These unused budgets will be used to reduce the pressures on the Council's budget in future years and have been included in the Medium Term Financial Plan. However as the budgets will not be used this year they will generate about £1.7m of cash savings within the year. In line with Council's recent approval of the Corporate Plan and desire to set up a 'Strategic Investment Reserve', this amount is shown in appendix 1 as a transfer to reserves.

### Capital Plan

Expenditure to the end of September is £9m against an agreed Plan of £33.3m. **Appendix 3** shows a summary of the current plan and how it is financed. An overview of major capital projects is shown as **Appendix 4**.

### Housing Revenue Account (HRA)

The latest HRA forecast shows an in-year deficit of £77k. This compares to a budgeted in-year surplus of £71k. The budget and outturn however include a provision to fund capital expenditure from revenue. The latest assumption is that £431k will be used to fund capital expenditure. The Business Plan remains viable and based on the latest forecast, the HRA balance carried forward will be £794k, compared to a budgeted projection of £942k.

The Housing Capital Plan is forecast to spend £7.4m in 2012/13 which is part-funded by prudential borrowing (£4.6m). The achievement of Welsh Housing Quality Standard by the end of 2012/13 remains on target and a detailed stock condition survey has recently been completed. The results of the survey will be input into an updated Housing Stock Business Plan over the coming months and 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:***

<b>Housing Revenue Account Summary 2012/13</b>	
<b>September 2012</b>	
<b>Expenditure</b>	<b>£'000</b>
Housing Management & Maintenance	5,814
Capital Charges	2,662
Subsidy	3,081
Provision for Bad Debts	29
Revenue Funding Capital Expenditure	431
<b>Total Expenditure</b>	<b>12,017</b>
<b>Income</b>	
Rents	11,777

Garages	158
Interest	5
<b>Total Income</b>	<b>11,940</b>
<b>In Year Surplus /(Deficit)</b>	<b>(77)</b>
<b>HRA Balance Carried Forward</b>	<b>794</b>

<b>Housing Capital Plan</b>	
<b>September 2012</b>	
	<b>£,000</b>
Planned Expenditure	7,437
<b>Funded By:</b>	
Major Repairs Allowance	2,400
Revenue Contribution	431
Capital Receipts	17
Prudential Borrowing	4,589
<b>Total</b>	<b>7,437</b>

## **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 at this stage seem to be on target to achieve them. 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. As the uncertainty in the markets continues, the council's

policy limits most new investments to overnight deposits. This strategy of making very short term investments is likely to continue for the medium term.

Total borrowing currently stands at £134.08m at an average rate of 5.76% and total investments are £18.0m at an average rate of 0.75%.

### **Annual Approval of the Council's Accounts 2011/12**

On the 26<sup>th</sup> September, the Corporate Governance Committee formally approved the sign-off of the council's annual accounts and accepted the report of the external auditor (Wales Audit Office). The Statement of Accounts is a complex and technical document that requires significant effort from a number of finance and other staff to complete. It is a document that few people will read but it absolutely underpins the governance of the council and is a key measure of the effectiveness of financial stewardship. The complexity of the accounts and the way they have to be produced to comply with a vast array of technical standards and legislative requirements means it is a significant annual undertaking. But, once again, the council's accounts were approved without qualification and indeed the quality of the accounts and the process behind it drew praise from the external auditors.

## **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.