

**Report To:** CABINET

**Date of Meeting:** 18<sup>th</sup> December 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 November 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 an under spend across service and corporate budgets of £344k. The position for schools forecasts positive net movement on balances of £121k.

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 £2.673m (79%) have been achieved with £702k (21%) classed as in progress and £25k (1%) has been deferred to next year. The deferral relates to savings due to printer rationalisation. One item within Children's Services (Reshaping the Supervised Contact Service - £43k) will now be delivered next year. The saving has been funded from staffing budgets this year arising from vacancies and headroom in some cases between the budgeted and actual salary where staff have not reached the top of the relevant grade. Although some items are still classed as 'in progress' none of the savings listed are thought to be

unachievable. In most cases, a full year's activity is needed to properly assess whether the saving measure listed has been achieved.

The corporate saving target around the conversion of some essential car users to casual user status has been confirmed. Some 211 people have been converted to casual users. The impact of this saves £215k this year with a further £5k as the full year effect next year (some were changed part way through the year). Budgets are being adjusted to remove the essential user provision from services. The additional mileage cost payable between essential and casual mileage rates (approximately 12p per mile) is not being provided for in departmental budgets. Service travelling costs generally have reduced, partly as the home to work disregard was changed last year. In most cases, this reduces the number of claimable miles, depending where the person lives and works. Also, all services should be aiming to reduce travelling costs to improve efficiency.

In response to a question raised at the last cabinet meeting, an additional appendix is enclosed which shows the level of savings achieved by department over the course of the Medium Term Financial Plan as a percentage of the baseline budget set in 2010/11. The figures are shown as Appendix 3 and have been adjusted to account for service reorganisations within the council. Where service responsibilities have changed, the original budget and subsequent savings have been adjusted to ensure the figures are comparable.

## **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. Detailed below are areas that require further explanation.

### **Service Budgets**

**The Business Planning & Performance** service is shown as balanced but includes a pressure of £39k which is within the Records Management budget and covers the cost of a member of staff seconded from Customer Services to a newly created temporary post. There are funding options this year within the BPP budget but it may cause a budget pressure next financial year.

**Highways & Infrastructure** – The service is reporting an under spend of £40k. This is mainly as a result of energy savings on street lighting and some additional income on Trunk Road Agency fees

**Adult Services** The latest forecasts indicate an overall budget pressure of £209k which will be funded from the Supporting People Reserve. Within the service, there are budget pressures on Learning Disability and Older People budgets which are being funded from centrally held budgets within the department. A detailed budget realignment exercise is continuing.

**Children & Family Services** - The service is currently reporting a balanced budget. Based on expenditure profiles to date, it is possible that an under spend of approximately £150k could be achieved. However, the service has a number of potential commitments including a tribunal and joint funding cases in dispute with the NHS. The outcome of these and other commitments should be clearer next month.

**Housing & Community Development (Including Regeneration)** – The **non-HRA Housing** budget is forecast to be on target. Within the **Regeneration** budget, there is a £44k pressure this year on the Rhyl Going Forward project.

**Communication, Marketing & Leisure** - The service is forecast to achieve its budget however the full impact of leisure centre income lost as a consequence of the floods is still being assessed.

**Environmental Services** is projected to under spend by £111k in 2012/13 mainly as a result of additional income being realised from the sale of recycle materials. Additional savings of over £600k were identified for future years at the recent Service Challenge.

**Modernising Education & Customer Care** budgets are currently projecting a small under spend of £23k. These are in year surpluses due to a staffing restructure which is currently being implemented.

**School Improvement & Inclusion** is forecasting an under spend of £84k. The primary reasons are not recruiting immediately to vacant posts and making more effective use of grant funding. Some posts are being held back until the impact of the regional school improvement service has been assessed. Savings this year may be needed to provide transitional protection for schools as a result of changes to the funding formula.

**Schools** - as at the end of October the projection for school balances is £1.941m. This is a positive movement of £121k on 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 £456k. These schools have recovery plans in place and are actively working to the targets set out in these plans.

A review of the Council Tax yield suggests that the collection rate is higher than the amount budgeted for. The flooding will have an impact on this as some households will qualify for relief. It is assumed that any benefit from the council tax yield will be used to contribute to the funding of the council's strategic investment priorities as part of the Corporate Plan.

## Capital Plan

Expenditure to the end of November is £15.3m against an agreed Plan of £33.1m. **Appendix 4** shows a summary of the current plan and how it is financed. An overview of major capital projects is shown as **Appendix 5**.

## Housing Revenue Account (HRA)

The latest HRA forecast remains unchanged and shows an in-year deficit of £63k. 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 £808k, 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). Welsh Housing Quality Standard is expected to be achieved during 2013.

The draft Subsidy Determinations should be received from Welsh Government before Christmas. These will determine key elements of the HRA budget for 2013/14. This assumes the national subsidy system continues into 2013/14. This seems likely even though proposed changes to council housing finance in Wales were planned to be introduced for 2013/14. However, as no proposals have been issued for consideration by councils it can only be assumed the changes won't be introduced until at least 2014/15.

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>November 2012</b>	
<b>Expenditure</b>	<b>£'000</b>
Housing Management & Maintenance	5,799
Capital Charges	2,662
Subsidy	3,081
Provision for Bad Debts	29
Revenue Funding Capital Expenditure	431
<b>Total Expenditure</b>	<b>12,002</b>
<b>Income</b>	
Rents	11,777

Garages	157
Interest	5
<b>Total Income</b>	<b>11,939</b>
<b>In Year Surplus /(Deficit)</b>	<b>(63)</b>
<b>HRA Balance Carried Forward</b>	<b>794</b>

<b>Housing Capital Plan</b>	
<b>November 2012</b>	
	<b>£,000</b>
Planned Expenditure	7,445
<b>Funded By:</b>	
Major Repairs Allowance	2,400
Revenue Contribution	431
Capital Receipts	17
Prudential Borrowing	4,597
<b>Total</b>	<b>7,445</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

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.

At the end of November, total borrowing was £134.08m at an average rate of 5.76% and total investments were £22.8m at an average rate of 0.72%.

## **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.