

Report To: CABINET

Date of Meeting: 19th February 2013

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 January 2013. The report also gives a summary update of the Capital Plan. There is a separate report covering the Housing Revenue Account and Housing Capital Plan on the Cabinet agenda this month.

2 What is the reason for making this report?

To update members on the current financial position of the Council.

To seek approval for recommendations made by the Strategic Investment Group.

3 What are the Recommendations?

Members note the budgets and savings targets for the year and progress against the agreed budget strategy.

Members agree to the funding of feasibility works in relation to Rhyl High School and Bodnant Community School, Prestatyn.

4 Report details

The latest revenue budget forecast is presented as **Appendix 1** and shows an under spend across service and corporate budgets of £631k (£435k last month), which represents a variance of 0.55% across the total net budget. The position for schools forecasts positive net movement on balances of £286k (£121k last month) on delegated budgets and £161k on non-delegated school 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 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 £3.102m (90%) have been achieved with £316k (9%) classed as in progress and £25k (1%) has been deferred to next year. The deferral relates to savings due to printer rationalisation. The remaining items still classed as 'in progress' are all thought to be achievable, but in most require analysis of a full year's activity to properly assess whether the saving measure listed has actually been 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. Detailed below are areas that require further explanation.

Service Budgets

Business Planning & Performance – is now forecast to be under spent by £26k and relates to uncommitted balances brought forward from 11/12. However, part this could be used to fund bids for additional programme manager resources within the year.

Adult & Business Services - the 2012/13 outturn within Adult and Business Services is currently reported as a break-even budget, although an overspend of approximately £106K is currently predicted (down from the £180K reported last month). As part of the agreed budget strategy (and also confirmed at previous Service Challenge meetings) any final overspend will be offset by utilising the Supporting People Reserve in 12/13. The reduced forecast overspend follows a detailed review of each area of spend following the recent budget realignment process undertaken across the Department, as well as income from client contributions to services exceeding budgeted targets and a delay in filling posts that have recently become vacant.

Highways & Environmental Services – the current report has merged the former Highways & Infrastructure and Environmental Services budget lines. Last month, Highways reported a forecast under spend of £38k but this has moved to an over spend of £14k this month. The main movement relates to a potential additional cost within school transport. However, of the balance brought forward from 2011/12, around £67k is not yet firmly committed to schemes. It is assumed that this will be used to fund any pressures and in all likelihood will result in an under spend before the end of the year. The

Environmental Services position is similar to that reported last month (£110k under spent).

Children & Family Services - the outturn is currently forecast to be an under spend of £80K (£60k last month). The positive change relates to the impact of a tribunal hearing being approximately £20k less than had been allowed for. The final under spend could increase as a number of issues are provided for in the outturn but are still to be resolved or implemented before the financial year end. The total of these is around £110k and includes a dispute with the NHS about contributions to a care package (£76k).

Communications, Marketing & Leisure - the current forecast is a small overspend of £11K (break-even last month) which is largely as a result of lost income at leisure centres during the November floods and also due to the recent inclement weather, resulting in the closure of the all weather pitches for a few days during January. The Department has inherited two service areas which have historically overspent significantly during previous years (Rhyl Pavilion Theatre and Llangollen Pavilion) and the latest indications are that both these facilities will come in on budget in the current financial year, which is a considerable turnaround in financial performance.

Customers & Education Support – following the recent restructure and merging of the former Customer Services to Modernising Education service budgets, a full cost review has been undertaken which has led to an under spend of £125k within the year. A number of factors contribute to this position, including vacancies and efficiencies in computer licensing and software costs. The reported outturn also includes a balance brought forward of £49k. Previous planning assumptions had included the costs of restructuring parts of the service in 2012/13. However, it is now assumed that the costs will be incurred in 2013/14. The latest outturn also includes a £32k balance carried forward on the former Modernising Education budget which remains uncommitted within the year. The service proposal is that this balance is transferred to the Modernising Education reserve to fund future school reorganisation costs.

School Improvement & Inclusion – The forecast in-year position remains similar to previous months (£74k under spend). However, within this, assumptions around the cost of recoupment (recharges from other authorities for specific support provided to Denbighshire pupils) are being reviewed to ensure the provisions made in the budget are still valid and to review progress on cases subject to ongoing negotiations between authorities. It is likely that the outcome of this work will result in an increased level of under spend which will be reported in more detail next month. The service carried forward a balance from 2011/12 of £321k. The service proposal is to use this balance in 2013/14 to fund protection for schools adversely impacted by revisions to the school funding formula. The total cost of the protection is estimated at £775k and further contributions to funding this are proposed to be found from in-year savings on non-delegated school budgets (detailed below).

Schools - at the end of January the projection for school balances is £2.106m (£1.941m last month). This is a positive movement of £286k on the balances brought forward from 2011/12. The council continues to work with two schools in financial difficulty. Both schools have recovery plans in place and are actively working to the targets set out in these plans. Expenditure on non-delegated school budgets is less than forecast this year primarily as forecast contributions to pooled accounts for maternity, sickness and other costs are less than planned. This creates an in-year under spend of £161k which it is assumed will be used to contribute to the school formula protection in 13/14.

Corporate Budgets – the corporate budgets have been set assuming some £1.7m is transferred to reserves as part of the funding strategy for the Corporate Plan. It is likely that the budgets earmarked to generate cash in 2012/13 will generate more than the £1.7m target. However, additional pressures have emerged that require either funding or provisions made to fund in the future.

The additional cost of the immediate response to the flooding events in November is around £260k. This falls short of the threshold for the Emergency Financial Assistance Scheme to apply and therefore the assumption is that the council will have to fund this cost. There are also ongoing costs in relation to exemptions from Council Tax (for properties remaining empty after the flood) which will equate to around £72k in the current year.

A further emerging pressure is in relation to liabilities arising from arrangements made following the winding up of the Mutual Municipal Insurance company (MMI) in 1992. MMI was the principal insurer of around 95% of local councils in the UK, including Denbighshire's predecessor authorities. A legal agreement was signed by members in 1994 with the aim of trying to protect the interests of local authorities and to achieve a successful run off of the company's liabilities.

As MMI was a company under the mutual ownership of its local authority members its members are responsible for liabilities (claims) still arising relating to events prior to 1992. The most prevalent cases are abuse claims, asbestosis, deafness and mesothelioma (a fatal lung condition caused through inhalation of asbestos dust). The impact of the claims still arising means that those administering MMI's affairs are projecting that the company may not have sufficient resources to fund all future claims, meaning former members will be obliged to contribute to the shortfall. Denbighshire has been aware of and made some provision for its potential liabilities in respect of the former Rhuddlan Borough Council. The maximum exposure to former Rhuddlan claims is £394k and a provision exists of £96k which is deemed reasonable cover. Additional liabilities are now arising however in respect of the former Clwyd County Council. There is no liability in respect of Glyndwr claims as these were below the threshold for claw back.

The amount of the potential Clwyd liability is uncertain – it depends upon the number and value of claims emerging. However, the range based on likely scenarios is currently between £250k and £560k. The council's total exposure

to the Clwyd claims is approximately £2.5m however it is unlikely that the liability would be triggered at this level.

Council Tax collection rates are exceeding assumptions and suggest that the yield will be higher than the amount budgeted for. 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 January is £19.4m against an agreed Plan of £31.4m. It should be noted that expenditure in the last quarter of the year always increases. Last year the final quarter accounted for 43% of the total expenditure for the year. **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**. Included as **Appendix 5** are details of the two schemes proposed for approval by the Strategic Investment Group.

Housing Revenue Account (HRA)

The proposed latest HRA forecast in-year deficit of £14k (£63k last month). This compares to a budgeted in-year surplus of £71k. A detailed report proposing the HRA budget and capital plan is a separate item on the Cabinet agenda. The report demonstrates that the Housing Stock Business Plan remains financially viable.

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 process and on the whole are 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. The position regarding the MMI liability will be kept under close review.

Additional service costs resulting from the response to the flooding in November will be funded corporately.

Economic Commentary & Treasury Management Update

The financial markets remain quite 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 short term investments is likely to continue for the medium term.

The Treasury Management Strategy Statement and Investment Strategy 2013/14-2015/16 is being presented to Council for approval on 26th February 2013.

At the end of January, total borrowing remained at £134.08m at an average rate of 5.76% and total investments were £19.2m at an average rate of 0.75%.

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.