

Report To: CABINET

Date of Meeting: 19th March 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 February 2013. The report also provides a summary update on the Housing Revenue Account and Housing Capital Plan. There is a separate report covering the 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.

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 £1.1m (£631k last month), which represents a variance of 0.9% across the total net budget. The position for schools forecasts positive net movement on balances of £306k (£286k last month) on delegated budgets and £161k on non-delegated school budgets (unchanged from last month).

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 £3.418m (99.3%) have been achieved or replaced with £25k (0.7%) deferred to next year. Two savings within Highways have been replaced: the Development Control (£18k) proposal was linked to collaboration and is no longer deliverable. The Winter Maintenance savings (£65k) were partially linked to the collaboration and wider efficiencies linked to the delivery and application of salt products. While some efficiency may be apparent in this area, a budget reduction has not

been achieved and therefore the saving has been replaced from within the department.

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. Detailed below are areas that require further explanation.

Service Budgets

As in previous years, additional grant funding has been awarded late in the year and has improved the overall position. The details are shown within the relevant service narrative sections below.

Business Planning & Performance – the under spend has increased by £35k to £61k. This is largely due to ICT costs relating to the purchase of GIS mapping software coming in below the initial projections. It is proposed that the under spend can be utilised in 2013/14 to fund posts within the Corporate Information Team structure and the investment identified in the business case for the EDRMS project.

Adult & Business Services - the 2012/13 outturn within Adult and Business Services is currently reported as a break-even budget, although an over spend of approximately £22k is currently predicted (down from the £106k reported last month). The main reason for the reduced over spend is additional income in respect of accrued client contributions (charged against property) being realised amounting to approximately £100k during February and early March. There has also been small movement within other services areas with marginal pressures contributing to the overall net reduction. As previously agreed any final year end overspend will be charged to the Supporting People Reserve as per earlier budget reports. The Supporting People grant is likely to generate an in-year surplus of £194k which is proposed to be allocated to the Supporting People reserve.

Highways & Environment Services – the Environment Service's under spend has increased by £78k to £193k. This includes two under spends on the Grounds Maintenance Service (£40k) and Street Cleansing (£58k) that relate to the delayed procurement of equipment such as mowers and road sweepers, in part due to the Fleet Review. It is proposed that these amounts are earmarked within the final service balance at year-end to facilitate this investment next financial year.

The Highways and Infrastructure Service has moved from an over spend of £15k to an under spend of £174k. Most of this movement relates to a review

of the use of carried forward balances as indicated in last month's monitoring report as well as a review of the projections for internal transfers. However, £46k of the under spend relates to the late allocation of Welsh Government Regional Transport Support Grant. It is intended to use this grant to fund eligible expenditure in 2012/13 and to utilise the balance in 2013/14 to mitigate the effects on services of the reduction in grant levels. The final allocation may change prior to year end. It is proposed to use £50k of the under spend to contribute to the funding of a post to facilitate the transfer of coastal assets facilities to the Communications, Marketing & Leisure service. A further carry forward of up to £30k may be required to fund equipment as part of the Rhyl coastal developments, depending on the timing of the procurement process.

Children & Family Services - the outturn is currently forecast to be an under spend of £35K (£80K under last month). The under spend has reduced this month due to a claim for backdated costs in a care arrangement.

The pressure reported within **Housing & Community Development** relates to funding of redundancy costs within Regeneration.

Communications, Marketing & Leisure - the current forecast is a small under spend of £1k which has improved from an overspend position of £11k last month. The positive change is as a result of an under spend balance of £25k being rolled forward from 11/12 on the Communications & Marketing budget, intended to be used as part of the restructuring of that service. Unfortunately there has been a delay in the review and this will not be completed now until early in 2013/14. Based on current forecasts clearly there could be a problem in that this balance is needed to balance the overall Departmental budget and may therefore not be available to fund what it was originally intended for. Any final year end service under spend will be needed to fund costs associated with the restructuring.

ICT/Business Transformation - The current forecast has remained the same as previously reported (i.e. an overall under spend of £27k). Since last month the amount of predicted spend has reduced but this will be offset by the outcome of a Lotus Notes 'licence audit' which will increase licensing costs. The audit has now been completed and the financial impact will be confirmed in the next two weeks.

Customers & Education Support – the under spend has increased by £46k from last month. Some £25k of this relates to a delay in the installation of the automatic payment point at County Hall. It is proposed that this is carried forward into 2013/14 to fund the committed expenditure. The School Reorganisation costs have also been examined and there will now be an estimated under spend of £35k. The service proposes to transfer this to the Modernising Education Reserve to help fund future school reorganisation costs. It should be noted that the in-year position includes £81k of balances brought forward which have, because of timing issues, remained uncommitted in the current year. As previously reported, the service proposes to carry

forward the balances to 2013/14 to contribute to restructuring costs (£49k) and education modernisation projects (£32k).

School Improvement & Inclusion – as indicated in last month's monitoring report a full review of assumptions around the cost of Out of County placement, recoupment (recharges from other authorities for specific support provided to Denbighshire pupils and vice versa) and SEN support has been undertaken. The effect of this has been to increase the under spend by £69k.

Schools - at the end of February the projection for school balances is £2.125m (£2.106m last month). This is a positive movement of £306k 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 and £150k is currently forecast. The council is likely to have to make a provision in respect of liabilities arising from MMI (as previously reported) of approximately £350k.

The additional cost of the immediate response to the flooding events in November was reported last month as being approximately £260k. Other costs, such as the impact of council tax exemptions are estimated to be approximately £100k this year and £213k next financial year. The costs incurred in respect of the response fell short of the threshold for the Emergency Financial Assistance Scheme but the Welsh Government has subsequently offered a grant of £158k under the Financial Assistance for Recovery from Emergencies Scheme. This additional funding contributes to the amended Corporate outturn.

Capital Plan

Expenditure to the end of February is £23m against an agreed Plan of £30m. It should be noted that expenditure in the last quarter of the year always increases and the forecast of planned expenditure of £30m by the end of the year is realistic.

Housing Revenue Account (HRA)

The proposed latest HRA forecast in-year deficit of £12k (£14k last month). This compares to a budgeted in-year surplus of £71k. The balance carried forward is forecast to be £860k. A recent review of the Housing Stock Business Plan confirms it remains financially viable.

Housing Revenue Account & Capital Plan Summary:

Housing Revenue Account Summary 2012/13	
February 2013	
Expenditure	£'000
Housing Management & Maintenance	5,799
Capital Charges	2,659
Subsidy	3,081
Provision for Bad Debts	79
Revenue Funding Capital Expenditure	331
Total Expenditure	11,949
Income	
Rents	11,776
Garages	156
Interest	5
Total Income	11,937
In Year Surplus /(Deficit)	(12)
HRA Balance Carried Forward	860

Housing Capital Plan	
February 2013	
	£,000
Planned Expenditure	7,183
Funded By:	
Major Repairs Allowance	2,400
Revenue Contribution	331
Capital Receipts	0
Prudential Borrowing	4,452
Total	7,183

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

The savings agreed for 2012/13 have been achieved or replaced, with one item deferred to next year. 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 timing of service

restructures and some additional grant funding has improved the reported position this month.

In order to improve visibility in the reported outturn, changes to the way revenue contributions to balances or reserves are dealt with have been introduced. Previously, small transfers or transfers as part of previously agreed programmes were processed during the year and reported at year end. All service proposals in relation to the use of in-year under spends are now being included in the monthly cabinet reports so no transfers to balances or reserves will be assumed without first being reported. This new procedure has contributed to the improved position over the last two months and ensures decisions to make transfers are transparent and can be properly debated. The next outturn report will highlight all proposed transfers to or from balances and reserves that have been discussed in recent cabinet reports.

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 uncertain 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. The 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 were approved by Council on 26th February 2013.

At the end of February, total borrowing was £133.32m at an average rate of 5.77% and total investments were £18m 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.