

**Report To: Cabinet**

**Date of Meeting: 25<sup>th</sup> June 2013**

**Lead Member / Officer: Councillor Julian Thompson-Hill /Paul McGrady**

**Report Author: Richard Weigh, Chief Accountant**

**Title: Finance Report – Final Revenue Position 2012/13**

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**1. What is the report about?**

Cabinet has received regular monitoring reports throughout the financial year on the performance of expenditure against budget and savings agreed as part of the Medium Term Financial Plan. This report details the final position at financial year end. County Council will receive the figures in July together with the recommended treatment of reserves.

The first draft of the Annual Statement of Accounts for 2012/13 will be submitted to the external auditors on 28<sup>th</sup> June. The audited accounts will then be presented to the Corporate Governance Committee in September for formal approval.

**2. What is the reason for making this report?**

To provide an update of the final revenue position and the proposed treatment of balances. The Council's constitution requires full Council to approve the establishment, use of and contributions to, financial reserves.

**3. What are the Recommendations?**

To consider the final revenue outturn position for 2012/13 and recommend the position to full Council.

To recommend to Council the treatment of reserves and balances as detailed in the report.

**4. Report details**

The overall financial outturn position for 2012/13 is an under spend against the approved budget, which together with an increase in the yield from Council Tax strengthens the financial position of the Council. As a consequence it is possible to make recommendations for the transfer of funds to specific reserves that will continue to assist the Council in addressing the severe financial pressures of the next few years and begin to establish the cash resources required to deliver the Corporate Plan.

The final Revenue Outturn figures are detailed in Appendix 1. The final position on service and corporate budgets is an under spend of £1.525m (1.3% of the net revenue budget).

The outturn position for services and corporate budgets was £530k higher than previously reported to Cabinet in March. The most significant movement is within **School Improvement & Inclusion** (£223k) where lower recharges for services from external providers and successful resolution of disputed placement fees contributed to the positive movement. The final position for **Legal and Democratic Services** improved by £76k which was due to external fees in relation to the retail development in Prestatyn being paid at the end of March, rather than in 2013/14 as had been assumed in previous forecasts. Additional grant funding of £80k in relation to Benefit administration was received in March. The position on **corporate budgets** has improved by £113k from the forecast reported in March. The main reasons for the improvement are that expenditure on corporate pension costs and the subsidy provided to the School Meal service being less than anticipated.

Services continue to be proactive in planning for savings for future years, and the financial impact of some of those proposals began to take effect toward the end of 2012/13. Services reported commitments against balances of £849k in March. The majority of the balances had been forecast because of timing issues (e.g. delays in implementing service changes or specific expenditure commitments being delayed until 2013/14). Committed service balances now stand at £1.139m with further details shown below.

Expenditure on schools was £1.069m below the delegated budget. This represents a movement from the position reported in March of £774k. Special schools improved by £490k which forms the majority of the total movement. The movement on special schools relates to the following factors:

- The finalisation of the recoument charges to other local authorities for Out of County children.
- Delay in projected investment in IT due to decision to purchase equipment outright with a new provider which means the expenditure will now fall in the new financial year.
- Delay in planned development of a plot of land at the Gwynfryn site as a vocational training resource

Special Schools have planned to increase their balance in order to better cope with variations in income levels each year relating to local authority recoument and the need for annual investment in school resources to provide for the year on year changing needs of the pupils. School balances now stand at £2.870m which equates to an average of £190 per pupil and 4.25% of the net schools budget. School balances are detailed in Appendix 3.

The council budgeted to make a contribution to balances of £300k which in keeping with previous reports is assumed in the final outturn position. The council also budgeted to make contributions to the funding of the Corporate Plan. The Plan requires around £25m of cash and £52m of borrowing to

deliver the council's ambitions. Part of this strategy has been and will continue to be identifying revenue budget resources to generate cash to fund capital expenditure. The 2012/13 budget assumed £2.073m would be generated through priority funding allocated to services and budgeted provisions within corporate budgets.

Further information regarding final service outturn is as follows:

**Business Planning & Performance** – the final position is an under spend of £60k. The under spend arose because of lower than expected ICT costs (mapping software) and recharges being higher than anticipated. As has previously been reported, it is proposed that the under spend be used to fund a corporate EDRMS project and contribute to the funding of a post dealing with Freedom of Information requests.

Grant funding awarded in March contributed to the **Finance & Assets** under spend of £16k. The proposal is to use the balance to fund costs in 13/14 arising from proposals to create a sub-regional procurement service.

The **Highways & Environment** position (£278k under) has improved by £15k from the forecast in March. The net under spend is made up of numerous variances including benefits from recycling contracts (£69k), use of balances carried forward from 2011/12 (£50k) and £36k relating to a funding agreement with the Welsh Government which will be utilised in 2013/14 to invest in local transport provision. Approximately £123k of the under spend relates to delays in the procurement of equipment and it is proposed that this be carried forward. In addition the service is proposing to carry forward £50k to facilitate the transfer of coastal facilities and £40k to invest in replacement car parking machines.

Additional income generated from fines (dog fouling) contributed to the small under spend (£6.5k) in **Planning & Regulatory** and is proposed to be used to fund restructuring costs as part of delivering savings for 2013/14.

The **Adults & Business Service** is shown as achieving the budget. However, as part of a long-term strategy to deal with in-year cost pressures, any balance is funded from the Supporting People Reserve and the contribution made in 2012/13 was £40k.

The final position for the **Children & Family Service** is £148k which is £10k higher than reported in March. As reported to Cabinet previously, the majority of this related to adoption fees assumed in 2012/13 but that will be paid in 2013/14 and a more favourable resolution of a disputed care funding arrangement. In addition to proposing to carry forward balances to fund the fostering fees, the Service is proposing to carry forward £20k to fund a fostering recruitment campaign.

The under spend of £9k within **Housing & Community Development** has arisen because a review of external grant funding at the end of the year

highlighted additional claimable costs. This also accounts for the movement between the forecast in March and the final position.

**Communications, Marketing & Leisure** - the final outturn position is an under spend of £37.5k (£25k reported at the end of March). The £25k related to a rolled forward under spend 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 until early in 2013/14. The improvement in the overall position is because spend on the Community Buildings (Town Halls) budget was £7k less than anticipated and the Rhyl Pavilion Theatre final outturn came in £5k under budget. Changing the trading performance of the latter facility by £150k (20% of budget) in one year and bringing the operation 'under budget' for the first time in several years is a significant achievement. It is proposed that the service under spend of £37.5k is earmarked for the restructuring of the Destination Marketing & Communication service that is currently underway.

The **ICT/Business Transformation** budget is under by £108k (£95k reported in March). The main reason for the under spend is lower than anticipated software licensing costs. The service proposal is to use the balance in 2013/14 to contribute to the delivery of Phase 2 of the ICT Strategy.

The final position for **Customers and Education Support** is an under spend of £245k (£232k reported in March). As previously reported, the under spend has arisen due to ongoing service reviews resulting in temporary vacancy savings and delayed reorganisation costs. The service proposal is to use the balance to fund investment in ongoing school and departmental reorganisation and service modernisation costs in 2013/14.

The final position for **School Improvement** is an under spend of £349k. Some £230k relates to inter-authority recoupment for out of county children which is a budget that can fluctuate each year depending on pupil numbers and the complexity of need. Temporary vacancy savings and an under spend relating to lower than projected claims by Early Years Providers for funded places account for most of the remaining position. As previously reported the service proposal is for £126k to be used to contribute to the funding of the protection for schools affected by the recent changes to the funding formula. It is also proposed that £25k is used to fund an existing post from August to March due to a temporary reduction in grant funding.

The position on the yield from **Council Tax** is impacted upon by the number of dwellings in the County, together with a very high level of tax collection (over 98% which is likely to be the second highest in Wales). Assumptions when the budgets were set had taken account of a likely drop in collection rates as a result of the continuing difficult economic picture generally but the council still successfully maintained a high collection rate, which is a considerable achievement.

As reported throughout the year, the final level of Council Tax yield was thought likely to exceed the original estimates used when setting the budget.

The final yield is £315k (0.8%) higher than the original estimate and the Council therefore has a one off benefit. The assumption throughout the year and the proposal now is that this is used to contribute to the funding of the Corporate Plan.

Given the position overall within services, it is proposed at this stage that departments carry forward any net under spends in full to help deliver the 2013/14 budget strategy and meet existing commitments. Services will be required to outline in more detail how the balances brought forward have been used in 2013/14 in the Finance Report to Cabinet in October.

The final position means that the council has £651k cash funding available. This is a significant achievement and the council must ensure that the funding is used in the most effective way. It is proposed that this be used to contribute to the cash reserves required to fund the Corporate Plan.

A number of other contributions to and from Reserves and Provisions have been allowed for within the accounts. These are detailed in Appendix 2 and will require approval by full Council. Major movements to reserves not already highlighted include:

- £6.2m is proposed to be reallocated from existing reserves to fund the Corporate Plan (reported in detail to the Corporate Governance Committee in May 2013)
- £562k has been earmarked to fund protection for schools adversely impacted by the recent formula funding changes
- £185k has been added to the Insurance Reserve to cover ongoing liabilities in respect of MMI (former insurer of Denbighshire's predecessor authorities) and other potential claims.
- Funding has moved from the Single Status reserve to a provision to fund equal pay claims

## **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?**

The council's net revenue budget for 2012/13 was £177m. The final position excluding schools was a net under spend of £1.5m (1.3%). Included within this position is the impact of grant funding confirmed late in the financial year and the budgeted contribution to reserves and balances. It is proposed that those services that achieved an under spend carry the net balance forward to 2013/14. The position within each service and intended use of balances will be reviewed in 2013/14.

The final outturn position will inform discussions about future budget savings.

**7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?**

Individual services are responsible for carrying out impact assessments on their saving proposals contained within the budget. A summary EqIA was submitted to Council in February 2012 as part of the budget approval process.

**8. What consultations have been carried out with Scrutiny and others?**

Service challenges were held with each head of service and each challenge included representatives from scrutiny committee and Cabinet. Corporate Plan and Budget workshops were held with members in September, November and December. The capital plan was approved by council following scrutiny by the Strategic Investment Group and recommendation by cabinet.

**9. Chief Finance Officer Statement**

The council has delivered revenue budgets savings of £3.4m in 2012/13 which is a considerable achievement. Services continue to be both prudent and effective in identifying savings going forward, some of which have begun to have an impact in 2012/13. This along with the determination of some grant funding late in the year and an improved council tax yield has again delivered a strong budget performance.

The final position means that the contributions required from 2012/13 to fund the Corporate Plan can be made. The Plan cannot be delivered unless the required cash resources are earmarked for investment in schools, social care and other priorities.

Protection offered to schools affected by the recent funding formula changes will be reviewed in the context of the contributions to school balances made at the end of 2012/13.

**10. 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 will help ensure that the financial strategy is achieved. The Council has committed to delivering an ambitious Corporate Plan that requires significant resources. It is crucial that the agreed strategy to build specific reserves to contribute to the funding of the Plan is maintained.

**11. 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.