

**North East Derbyshire District Council**

**Cabinet**

**7 June 2017**

**Medium Term Financial Plan - Financial Outturn 2016/17**

**Report of Councillor P R Kerry, Portfolio Holder with Responsibility for  
Economy, Finance and Regeneration**

This report is public

**Purpose of the Report**

- To inform Cabinet of the financial outturn position of the Council for the 2016/17 financial year.

**1 Background Information**

- 1.1 The Council published its Draft Statement of Accounts in respect of 2016/17 on 26 May, in line with the target date of 31 May which had been set to reflect the forthcoming change in the statutory deadline next year. The draft Statement of Accounts 2016/17 is now subject to the independent audit from the Council's external auditors, KPMG. Until the accounts have been agreed by our external auditors, there remains the possibility that they will be subject to amendment. It is anticipated that the external audit will have been completed during July in order to allow the final audited accounts will be reported to and approved by the Audit & Corporate Governance Committee at its meeting of 27 July 2017.
- 1.2 International Financial Reporting Standards (IFRS) dictates that the main focus of the Statement of Accounts is on reporting to the public in a format which is directly comparable with every country that has adopted IFRS i.e. not just UK or even other local authorities. By contrast, the focus of this report is on providing management information to Members and other stakeholders to assist in the financial management of the Council.
- 1.3 The following sections of this report will consider the 2016/17 outturn position in respect of the General Fund Revenue Account, the Housing Revenue Account (HRA), the Council's Capital Investment Programme and Treasury Management activities. Within the report, consideration is given to the level of balances at the year end, to any impact on the Council's Medium Term Financial Plan of the outturn position, together with an assessment of the impact which the closing position has upon the Council's budgets in respect of the current financial year.

## Issues for Consideration

### **2 General Fund Revenue Account**

- 2.1 The position in respect of the General Fund outturn is detailed in **Appendix 1** attached to this report. The appendix shows the Original Budget that was set in February 2016, together with the Current Budget. The Appendix compares the Current Budget (column B) with the Outturn (column C). The Current Budget is effectively the approved budget adjusted for further approvals by Members, together with financial virements. The current budget is held within the financial ledger and is the position which budget managers work to.
- 2.2 The variance in net cost of services for 2016/17 is £1.195m (Appendix 1, column D), which increases to £1.313m after investment income and interest are taken into account. This improved position has arisen from savings on expenditure budgets, additional income and efficiency savings. With respect to the detailed variances behind the summary figures these are outlined - where significant - in Appendix 2.
- 2.3 The improvement against the Current Budget was achieved by a combination of factors:
- Budget managers exercising tight control over their budgets. Expenditure has only been incurred where the services have a genuine need to incur the costs to provide the services required.
  - The continued buoyancy of the economy; particularly in relation to income levels, business rates retention and planning fees.
  - Good financial management of capital financing resulting in reduced interest charges.
- 2.4 The lower half of Appendix 1 shows the funding outturn position for the financial year.

#### Revenue Support Grant

The Council received £1.295m Revenue Support Grant, in line with the budget.

#### New Homes Bonus Grant

The Council received late notification of an increased allocation of New Homes Bonus Grant from the Government (£11,688). The total received in 2016/17 was £1.226m.

#### Business Rates Retention - NNDR

With effect from 1 April 2015, the Council became a member of the Derbyshire Pool. All Derbyshire authorities are members of the Pool which is administered by Derby City Council. The advantage of the pool is that it provides opportunities to generate additional income from business growth through collaborative working and to smooth out the impact of volatility in business rates income across a wider economic area. Under the accounting arrangements for the Derbyshire Pool, the Council pays a levy to the pool and receives a redistribution of growth back from the

pool at the end of each financial year. For 2016/17 the Council secured £0.400m of business rate income as a result of being members of the pool.

The income collected into the Business Rates collection fund is split between North East Derbyshire District Council (40%), Central Government (50%), Derbyshire County Council (9%) and Derbyshire Fire Authority (1%).

At 31st March 2017, the Business Rates collection fund has a deficit of £1.906m. The share of the deficit relating to North East Derbyshire is £0.762m. Accounting regulations mean the repayment to the collection fund to cover this deficit is delayed until the NNDR1 form is submitted to Central Government in January following the year end (January 2018).

The overall position regarding Business Rates retention for the year shows a net gain for the Council of £0.259m above the budgeted sum. This will effectively be reversed when the deficit becomes due in future years so a corresponding contribution of £0.259m has been made to the earmarked reserve to offset the future impact on the General Fund.

## 2.5 Financial Reserves

### Use of Earmarked Reserves

The use of earmarked reserves in 2016/17 was £1.737m which is £0.168m higher than originally forecast. Detail of the use of reserves during 2016/17 is shown on Appendix 1.

### Transfer to Reserves

At the end of the financial year it has been necessary to agree a number of transfers into reserves. These transfers, as set out below, reflect expenditure commitments which have moved into the current financial year (2017/18) from the previous year (2016/17). Should any of these Reserves prove unnecessary in the light of subsequent events then they will be moved back into unallocated General Fund resources.

| <b>Earmarked Reserve</b> | <b>Comments</b>  | <b>Contribution<br/>£</b> |
|--------------------------|--|---------------------------|
| Grants Reserve           | The Council has received Government grants in relation to Housing Benefits, Individual Electronic Registration, Housing, Planning and Transparency. These will be used in future years in line with the grant conditions to meet service requirements. | 0.309m                    |
| Investment properties    | To set aside resources to meet necessary developments/improvements on the Council's Investment Properties to protect income from what are a range of ageing properties.  | 0.025m                    |

|                          |   |               |
|--------------------------|---|---------------|
| Insurance Reserve        | To maintain a reserve to meet insurance claim costs that are not covered through the Council's insurance arrangements including future liabilities arising from Municipal Mutual Insurance.   | 0.095m        |
| Business Rates           | To set aside resources to offset the impact to the General Fund of the deficit on the NNDR Collection Fund.   | 0.259m        |
| Other Earmarked Reserves | Amounts set aside for commitments in 2017/18:<br>ICT Apprentice scheme £0.06m<br>Vehicles £0.01m<br>Other deminimus items £0.008m   | 0.078m        |
| Invest to Save Reserve   | The balance of available resources is set aside to meet the Invest to Save / Transformation agenda costs and to meet the costs of restructuring the Council to adjust to the ongoing reductions in the level of Government funding. | 1.553m        |
| <b>Total</b>             |   | <b>2.319m</b> |

At the end of 2016/17, the Council has been able to transfer an amount of £1.553m into the Invest to Save Reserve. While this represents an improvement in the Council's financial position it needs to be recognised that the increase in the Invest to Save Reserve was offset by a utilisation of that reserve in the year of £1.358m. During 2016/17 these amounts were utilised to fund the refurbishment of Eckington and Dronfield Sports Centres. With the net increase in the reserve of £0.195m during the year the Invest to Save balance at the end of the year was £2.928m. Commitments already made against this reserve for 2017/18 amount to £1.332m leaving £1.596m uncommitted.

## 2.6 General Fund Balances

The position on the level of the Council's General Fund balances is set out in the table given below:

| <b>GENERAL FUND</b>                   | <b>Original Budget</b> | <b>Current Budget</b> | <b>Outturn</b> | <b>Variance to Current Budget</b> |
|---------------------------------------|------------------------|-----------------------|----------------|-----------------------------------|
|                                       | <b>£'000</b>           | <b>£'000</b>          | <b>£'000</b>   | <b>£'000</b>                      |
| Opening Balance as at 1/04/16         | 2,000                  | 2,000                 | 2,000          | 0                                 |
| Transfer in year                      | 0                      | 0                     | 0              | 0                                 |
| <b>Closing Balance as at 31/03/17</b> | <b>2,000</b>           | <b>2,000</b>          | <b>2,000</b>   | <b>0</b>                          |

- 2.7 The level of General Fund Balances has been maintained at £2.000m. The General Fund balances are considered to be at an acceptable level for a District Council rather than at a generous level. The General Fund Balance needs to be considered against the background of ongoing reductions in the level of Government funding together with the range of risks facing the Council. Over previous financial years any savings have been transferred into the Invest to Save reserve on the basis that these are available to support investment in the cost reduction/income growth. This reflects the Council's "pro active" approach to addressing the financial challenges which it faces. With only a limited level of General Fund reserves it is crucial that the Council continues to maintain robust budgetary control while securing its ongoing savings targets in order to safeguard both its reserves and its financial sustainability.
- 2.8 Given the current level of general balances, should either an over spend or an under achievement of income occur then the Council would have a period of time in which to recover the situation. In a situation in which the Council were operating at a lower level of balances and an overspend or an under achievement of income occurred which took balances to below minimum level then immediate 'crisis' remedial action would need to be considered. Such a response is not conducive to sound financial management but more importantly would have a significant detrimental impact upon the Council's ability to deliver the planned and agreed level of services to local residents. However, Cabinet will recognise that given a level of General Fund Balances of £2.000m, against a requirement to secure £1.713m of financial savings by 2020/21; there is effectively no other option for the Council other than to continue to tackle the underlying forecast budget deficit.
- 2.9 The main feature of the 2016/17 financial year is that the Council successfully achieved in full the savings target of £0.395m (MTFP February 2016) principally the loss of Government Grant. In part, the savings achieved have served to reduce the underlying level of expenditure and will continue to benefit the Council in 2017/18 and future financial years.
- 2.10 With regard to the underlying favourable variance on the General Fund in 2016/17 it is proposed to review the budget for 2017/18 in the light of expenditure and income patterns during 2016/17. Any ongoing expenditure budget savings or additional income levels from 2016/17 that are anticipated to be available in 2017/18 and future years will be identified and reported back to Cabinet with the request to approve any proposed budget adjustments. This will help to secure the budget savings of £0.613m which need to be achieved in order to balance the 2017/18 budget position.

### **3 Housing Revenue Account (HRA)**

- 3.1 The Housing Revenue Account is provided in **Appendix 3** to this report. The figures provided include all the statutory accounting transactions that the Council is required to make within the year end Statement of Accounts. These are accounting transactions which net off to zero and are not included within the HRA management budgets as they do not impact on the overall financial position or balances of the HRA. To allow comparison between budget and outturn these accounting adjustments are included within both the adjusted budget and outturn position.

3.2 The Housing Revenue Account position shows only small variances based on the level of expenditure and income recorded during the year. Whilst the variances between the budget and outturn are relatively limited, they have a positive benefit overall. As a consequence it has been possible to make a contribution to the Development Reserve of £1.787m. This reserve is available to sustain the Council's housing stock. Income is a net £0.023m below budget while the overall expenditure position is £0.044m below the revised budget which gives a net cost of services under spend position of £0.021m. A net decrease of £0.008m on interest increases the net favourable variance on the account to £0.029m.

3.3 After the transfer to the Development reserve a net amount of £0.029m has been transferred to the HRA balance. This leaves the General Fund balance at 31 March 2017 at a level of £3m which is in line with the level of financial risk facing the HRA.

3.4 Impact on Housing Revenue Account Balance

The impact on the Housing Revenue Account balance is as follows:-

| <b>HRA Balances</b>                   | <b>Current Budget</b> | <b>Outturn</b> | <b>Variance</b> |
|---------------------------------------|-----------------------|----------------|-----------------|
|                                       | <b>£'000</b>          | <b>£'000</b>   | <b>£'000</b>    |
| Opening Balance as at 1/04/16         | (2,971)               | (2,971)        | 0               |
| Surplus in year                       | (58)                  | (29)           | (29)            |
| <b>Closing Balance as at 31/03/17</b> | <b>(3,029)</b>        | <b>(3,000)</b> | <b>(29)</b>     |

3.5 The addition to balances achieved at the year end is welcome as it will help ensure the financial and operational stability of the HRA which is essential if we are to maintain the level of services and quality of housing provided to our tenants. Given the changes to the rent setting process together with the increasing numbers of houses lost under Right to Buy the Council the Council and Rykneld Homes will need to continue to work closely together in order to ensure the continued sustainability of the HRA over the period of the 30 year Business Plan.

**4 Capital Investment Programme**

4.1 Details of the capital expenditure incurred by the Council in 2016/17 on a scheme by scheme basis is provided in **Appendix 4**. It can be seen from the appendix that the Council's capital spending in the financial year was £13.563m.

The Capital Programme may be summarised as follows:-

|                              | <b>Current Programme</b> | <b>Outturn</b> | <b>Variance</b> |
|------------------------------|--------------------------|----------------|-----------------|
|                              | <b>£'000</b>             | <b>£'000</b>   | <b>£'000</b>    |
| Housing Investment Programme | 10,164                   | 8,922          | (1,242)         |
| North Wingfield New Build    | 2,535                    | 1,278          | (1,257)         |
| Other Housing                | 965                      | 781            | (184)           |

|                           |               |               |                |
|---------------------------|---------------|---------------|----------------|
| <b>HRA Total</b>          | <b>13,664</b> | <b>10,981</b> | <b>(2,683)</b> |
| Eckington Sports Centre   | 1,378         | 1,412         | 34             |
| Dronfield Sports Centre   | 385           | 362           | (23)           |
| Vehicle Replacement       | 360           | 322           | (38)           |
| ICT Schemes               | 233           | 129           | (104)          |
| Other Capital Schemes     | 516           | 357           | (159)          |
| <b>General Fund Total</b> | <b>2,872</b>  | <b>2,582</b>  | <b>(290)</b>   |
| <b>Programme Total</b>    | <b>16,536</b> | <b>13,563</b> | <b>(2,973)</b> |

#### 4.2 HRA Schemes

Within the HRA the main variances show that a proportion of the Housing Investment Programme has been not been undertaken during the year and will slip into the early part of 2017/18. The new build scheme at North Wingfield is now underway with works continuing in 2017/18. Other Housing projects have progressed well during 2016/17 with only a limited amount of slippage.

#### 4.3 General Fund

The General Fund element of the Capital Programme during 2016/17 was mainly related to the refurbishment of Eckington and Dronfield Sports Centres. The majority of the work was concluded towards the end of 2016/17. The vehicle replacement scheme shows a small favourable variance with the balance being carried forward to fund the purchase of vehicles which have been ordered but not yet received by the Council. A number of the other schemes within the General Fund are in progress but not complete and again a recommendation to carry forward these budgets is made.

4.4 Appendix 4 details the proposed carry forwards amounts to 2016/17. These requests relate to individual schemes that are still in progress, where there are outstanding commitments or where the scheme has been delayed. The total amounts to £2.776m with the impact on the 2017/18 capital programme detailed in the appendix. It should be noted that all these expenditure requirements will take forward a corresponding level of financial resources and thus have a neutral impact on the financial position in 2017/18.

#### 4.5 Capital Financing

The Capital Programme was financed as follows:-

|                                | <b>Revised Budget</b> | <b>Outturn</b>  | <b>Variance</b> |
|--------------------------------|-----------------------|-----------------|-----------------|
|                                | <b>£000's</b>         | <b>£000's</b>   | <b>£000's</b>   |
| <b>HRA:</b>                    |                       |                 |                 |
| Capital Grants                 | (691)                 | (339)           | 352             |
| Major Repairs Reserve          | (10,164)              | (8,922)         | 1,242           |
| HRA Capital Investment Reserve | (1,025)               | (1,025)         | 0               |
| Prudential Borrowing           | (1,184)               | 0               | 1,184           |
| Disabled Facilities Grant      | (580)                 | (342)           | 238             |
| Usable Capital Receipts        | (20)                  | (20)            | 0               |
| <b>Total HRA</b>               | <b>(13,664)</b>       | <b>(10,981)</b> | <b>2,683</b>    |

|                                   | <b>Revised Budget</b> | <b>Outturn</b>  | <b>Variance</b> |
|-----------------------------------|-----------------------|-----------------|-----------------|
|                                   | <b>£000's</b>         | <b>£000's</b>   | <b>£000's</b>   |
| <b>General Fund:</b>              |                       |                 |                 |
| Prudential Borrowing              | (360)                 | (322)           | 38              |
| Capital Grants                    | (172)                 | (119)           | 53              |
| Usable Capital Receipts           | (971)                 | (985)           | (14)            |
| Direct from Revenue Contributions | (1,369)               | (1,156)         | 213             |
| <b>Total General Fund</b>         | <b>(2,872)</b>        | <b>(2,582)</b>  | <b>290</b>      |
| <b>Grand Total</b>                | <b>(16,536)</b>       | <b>(13,563)</b> | <b>2,973</b>    |

#### 4.6 HRA Capital Financing

Officers have financed the HRA Capital Programme from a combination of capital receipts, revenue contributions, use of reserves and grants.

#### 4.7 General Fund Capital Financing

Officers have financed the General Fund Capital Programme from a combination of capital receipts, revenue contributions, prudential borrowing and grants. The



Prudential Borrowing financing arrangements were agreed by Council as part of the Treasury Management Strategy at its meeting in February 2016.

## **5 Treasury Management**

5.1 **Appendix 5** provides a brief report on the Treasury Management activity of the Council for 2016/17. In summary the Council operated throughout 2016/17 within the Authorised Limit and Operational Boundary limits approved in the Treasury Management strategy as approved by the Council in February 2016.

5.2 The key points from the summary report are:

- The overall borrowing requirement of the Council was £165.485m at 31 March 2017.
- The PWLB debt is £155.451m
- Effective internal borrowing is £10.034m
- No new PWLB borrowing was undertaken in 2016/17
- The adjusted HRA headroom at 31 March 2017 is £6.840m
- PWLB interest paid in 2016/17 was £5.587m
- Interest received on investments was £0.028m
- Repaid PWLB debt in year of £1.302m

## **6 Conclusions and Reasons for Recommendation**

### **6.1 General Fund**

During the previous financial year the Council managed its budget effectively securing a favourable financial outturn. In particular the Council successfully met its financial savings target of £0.395m, and was able to grow the balance in the Invest to Save Reserve by £0.195m. However, despite a successful outturn position the impact of the austerity agenda and the ongoing reduction in the level of Government grant is adversely impacting on the Council's financial position. Although the outturn has allowed the Council to set aside earmarked reserves to meet contractual commitments and to address some of the key issues and potential liabilities it is facing, the Invest to Save reserve which is the Council's only general earmarked reserve does have commitments against it in 2017/18 so continued prudence is needed when committing against this reserve.

### **6.2 HRA**

The HRA continues to operate within the parameters set by the 30 Year Business Plan and the MTFP. Officers will be working with Rykneld Homes to ensure that the Business Plan continues to reflect the impact of recent government legislation, and that the HRA remains sustainable over the 30 year period of the Business Plan.

### **6.3 Capital Programme**

The Capital Programme saw good progress on approved schemes during the 2016/17 financial year. In particular both the sports centre refurbishments and the North Wingfield new build scheme progressed well. There are, however, a limited

number of schemes which are work in progress and this requires that the associated expenditure and funding and carried forward into the 2017/18 financial year.

#### 6.4 Capital Financing

Capital expenditure during 2016/17 has been fully financed in line with the approved programme.

#### 6.5 Treasury Management

The Council operated in line with its agreed Treasury Management Strategy during the 2016/17 financial year. This ensures that lending and borrowing arrangements were prudent and sustainable, minimising the risk of financial loss to the Council. Effective management of these arrangements ensured that interest costs during the year were minimised in order to assist the Council's revenue position.

### 7 Consultation and Equality Impact

7.1 The report has no direct implications for Consultation or Equality issues.

### 8 Alternative Options and Reasons for Rejection

8.1 The financial outturn report for 2016/17 is primarily a factual report which details the outcome of previously approved budgets therefore there are no alternative options that need to be considered.

8.2 The allocation of resources to earmarked reserve accounts has been undertaken in line with the Council's Policy and Service Delivery Framework and in the light of the risks and issues facing the Council over the period of the current MTFP. If these risks do not materialise or are settled at a lower cost than anticipated then the earmarked reserves will be reassessed and returned to balances where appropriate.

### 9 Implications

#### 9.1 Finance and Risk Implications

9.2 The financial implications are set out within the body of the report.

9.3 Members should note that the budgets against which we have monitored the 2016/17 outturn were those agreed within the Council's Medium Term Financial Plan. The Medium Term Financial Plan gave careful consideration to both the affordability of the budgets that were approved, and to ensuring that the level of balances remained adequate for purposes of enabling sound financial management. The fact that the outturn position for 2016/17 indicates that these financial targets have been achieved, gives the Council a firm foundation from which to achieve the service delivery and financial targets approved within the current Medium Term Financial Plan.

- 9.4 The issue of Financial Risk is covered throughout the report. The risk of not achieving a balanced budget, together with the risk that the Council's level of financial balances will be further eroded are currently key corporate risks identified on the Council's Strategic Risk Register. The outturn report shows that the Council's approach to mitigating these risks during 2016/17 has been successful, with our budgets balanced and the level of financial reserves protected.
- 9.5 While the Council has effectively addressed its Strategic Financial Risks during 2016/17 it needs to be recognised that the Council will need to continue to meet a range of challenging savings targets if it is to operate effectively within the financial environment established by Central Government spending targets. The success of the Council's approach remains reliant on the ability to utilise the Invest to Save reserve to secure reductions in the costs of operating existing services. If this approach cannot balance the budget in future years then it will be necessary to look more closely at service priorities in the future.

## **10 Legal Implications including Data Protection**

- 10.1 The Statement of Accounts is required to be prepared and audited by the 30 September each year. The Council has now completed the draft Statement of Accounts and they have been signed off by the Chief Financial Officer as at the 26 May 2017 which secures compliance with the Council's obligations.

## **11 Human Resources Implications**

- 11.1 There are no Human Resources issues arising directly from this report.

## **12 Recommendations**

- 12.1 That Members note the outturn position in respect of the 2016/17 financial year.
- 12.2 That Members approve the proposed carry forward of capital budgets detailed in Appendix 4 totalling £2.776m, which reflect a carry forward between years of financial commitments.

**13 Decision Information**

|   |            |
|---|------------|
| <p><b>Is the decision a Key Decision?</b><br/> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:<br/> BDC: Revenue - £75,000 <input type="checkbox"/><br/> Capital - £150,000 <input type="checkbox"/><br/> NEDDC: Revenue - £100,000 <input checked="" type="checkbox"/><br/> Capital - £250,000 <input checked="" type="checkbox"/><br/> <i>* Please indicate which threshold applies</i></p> | <p>Yes</p> |
| <p><b>Is the decision subject to Call-In?</b><br/> (Only Key Decisions are subject to Call-In)</p>  | <p>Yes</p> |
| <p><b>District Wards Affected</b></p>   | <p>All</p> |
| <p><b>Links to Corporate Plan priorities or Policy Framework</b></p>  | <p>All</p> |

**14 Document Information**

| Appendix No   | Title                               |
|---|-------------------------------------|
| 1   | General Fund Summary 2016/17        |
| 2   | General Fund Outturn 2016/17        |
| 3   | HRA Outturn 2016/17                 |
| 4   | Capital Expenditure Outturn 2016/17 |
| 5   | Treasury Management Outturn 2016/17 |
| <p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p> |                                     |
| <p>Held in Finance – Room 024</p>   |                                     |
| <p><b>Report Author</b></p>   | <p><b>Contact Number</b></p>        |
| <p>Dawn Clarke – Assistant Director – Finance, Revenues and Benefits</p>  | <p>(01246) 217658</p>               |