

North East Derbyshire District Council

Cabinet

13 June 2019

Medium Term Financial Plan - Financial Outturn 2018/19

Report of Councillor P Parkin, Portfolio Holder with Responsibility for Finance

This report is public

Purpose of the Report

To inform Cabinet of the outturn position of the Council for the 2018/19 financial year.

1 Report Details

- 1.1 The Council published its draft Statement of Accounts in respect of 2018/19 on 21 May 2019, in line with the statutory deadline of 31 May 2019. The draft Statement of Accounts 2018/19 is now subject to the independent audit from the Council's external auditors, Mazars. 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 be completed during June in order to allow the final audited accounts to be reported to and approved by the Audit & Corporate Governance Scrutiny Committee at its meeting of 25 July 2019.
- 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 2018/19 outturn position in respect of the General Fund, Housing Revenue Account (HRA), Capital Programme and Treasury Management activities. Within the report, consideration is given to the level of balances at the year end and the impact which the closing position has upon the Council's budgets in respect of the current financial year.

General Fund

- 1.4 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 2018, together with the Current Budget compared to the final Outturn position. The main variances against the current budget are shown in Table 1 below with variances at service level shown in **Appendix 2**.

Table 1

	£000
Vacancy management	(176)
Vehicle related costs	(50)
Efficiencies from supplies and services	(218)
Additional income from rents/services	(117)
In year adjustment to bad debt provisions	(87)
Miscellaneous variances	21
Net cost of services	(627)
Investment property income	(46)
Income from interest	(132)
NNDR growth	(314)
Variance before movements to reserves	(1119)
Transfer to NNDR growth reserve	314
Transfer to Planning Appeals reserve	300
Final Variance	(505)
Contribution to Invest to Save - Outturn	505

- 1.5 Two budgets have been identified for which there is a requirement to roll over into 2019/20. The first is for the purchase of mowers that should have arrived by 31 March but a delay in the supply chain meant they weren't received on time. The second is for the installation of hearing loops in the Council Chamber which was scheduled for completion before 31 March but has been slightly delayed. The total amount to be rolled over is £0.016m.

Financial Reserves

1.6 Transfers from Earmarked Reserves

The use of earmarked reserves in 2018/19 was £0.726m comprising:

- £0.263m from revenue grants
- £0.182m from earmarked reserves
- £0.281m from the Invest to Save Reserve. Of this £0.155m related to the cost of defending planning appeals.

There are ongoing commitments against these reserves in 2019/20 and future years so will continue to be utilised.

1.7 Transfers to Earmarked Reserves

There have been transfers to earmarked reserves during 2018/19 totalling £3.587m. This comprises:

- £0.805m in revenue grants received.
- £1.977m into earmarked reserves. Of this £1.830m relates to business rates growth as a result of being in the pilot during 2018/19 and £0.105m relates to the statutory ring fence of planning fees for reinvesting into the planning service.

- £0.300m additional contribution to earmarked reserves to cover the commitment for the cost of defending planning appeals in 2019/20.
 - A contribution of £0.505m to the Invest to Save Reserve from the in year surplus generated.
- 1.8 The Invest to Save Reserve has a balance at the end of the year of £4.204m. Commitments already made against this reserve for 2019/20 and future years amount to £1.321m leaving £2.883m uncommitted.
- 1.9 There are ongoing commitments against the earmarked reserves which will continue in 2019/20 and future years. Should any of the reserves prove unnecessary in the light of subsequent events then they will be moved back into unallocated General Fund resources.

General Fund Balances

- 1.10 The level of General Fund Balances has been maintained at £2.00m. The General Fund balances are considered to be at an acceptable level rather than generous. 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. Current practice is to transfer any savings into the Invest to Save Reserve on the basis that these are available to support investment in 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.
- 1.11 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 £2.00m, against the requirement to secure substantial savings by 2022/23, as identified in the Medium Term Financial Plan (MTFP) of February 2019, the need to continue to tackle the underlying forecast budget deficit remains.
- 1.12 The main feature of the 2018/19 financial year is that the Council successfully achieved in full the savings target of £0.434m (MTFP February 2018). Further efficiencies of £0.505m have been identified at Outturn and have been transferred to the Invest to Save Reserve.
- 1.13 With regard to the underlying favourable variance on the General Fund in 2018/19, it is proposed that a base budget review be carried out during 2019/20. The intention is to identify ongoing expenditure budget savings or additional income levels from 2018/19 that are anticipated to be available in 2019/20 and future years to ease the current budget shortfalls in the current MTFP as shown in Table 2 below. The results will be reported back to Cabinet with the request to approve any proposed budget adjustments as required.

Table 2

	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000	2022/23 Budget £000
Budget Shortfall - MTFP Feb 2019	871	1,769	2,399	2,783
Efficiencies identified to date (removed from budget)	(101)	(101)	(101)	(101)
Current Budget Shortfall	770	1,668	2,298	2,682
Efficiencies Identified <u>not yet realised</u>	(323)	(323)	(323)	(323)
Target Budget Shortfall	447	1,345	1,975	2,359

Housing Revenue Account (HRA)

- 1.14 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 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.
- 1.15 The Housing Revenue Account position shows a number of relatively minor variances during the year. Income is just £0.010m below budget. The overall expenditure position is £0.153m below the current budget due to minor variances in repairs and maintenance and supervision and management. There is also a reduction in the provision for bad debts of £0.106m due to better than forecast collection rates. This gives a net cost of services under spend of £0.143m, adjusting to £0.148m after interest. A contribution of £1.075m has been made to the Development Reserve which is available to sustain the Council's housing stock.
- 1.16 The HRA balance is being maintained at £3m in line with the level of financial risk facing the HRA. Maintenance of this balance is necessary 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 and Rykneld Homes will need to continue to work closely together in order to ensure the continued sustainability of the HRA over the life of the 30 year Business Plan.
- 1.17 It is also proposed to perform a base budget review of the HRA during 2019/20 to identify ongoing expenditure budget savings or additional income levels from 2018/19 that are anticipated to be available in 2019/20 and future years. As with the General Fund, the results will be reported back to Cabinet with the request to approve any proposed budget adjustments.

Capital Investment Programme

- 1.18 Details of the capital expenditure incurred by the Council in 2018/19 on a scheme by scheme basis is provided in **Appendix 4**

The Capital Programme may be summarised as follows:-

	Current Programme £'000	Outturn £'000	Variance £'000
Housing Investment Programme	9,606	9,720	114
North Wingfield New Build	1,977	1,780	(197)
Stock Purchase Scheme	1,482	927	(555)
Other	2,014	594	(1,420)
HRA Total	15,079	13,021	(2,058)
Eckington Sports Centre Roof	270	0	(270)
Vehicle Replacement	1,138	315	(823)
S106 schemes	839	839	0
Other Capital Schemes	752	539	(213)
General Fund Total	2,999	1,693	(1,306)
Programme Total	18,078	14,714	(3,364)

1.19 HRA Schemes

The housing investment programme was utilised in full during 2018/19 and the new build scheme at North Wingfield was predominantly completed with just a small amount of work to be finalised in 2019/20. The slippage on the stock purchase scheme is all committed and will be utilised early in 2019/20.

1.20 General Fund

The General Fund element of the Capital Programme during 2018/19 was relatively limited. The vehicle replacement scheme shows a variance of £0.823m which is being carried forward to fund the purchase of vehicles in the new financial year. The other main variance of note relates to Eckington Sports Centre Roof refurbishment which will be completed in 2019/20.

- 1.21 Appendix 4 also details the proposed carry forward amounts to 2019/20. 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 £3.087m with the impact on the 2019/20 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 2019/20.

Capital Financing

1.22 The Capital Programme was financed as follows:-

	Revised Budget	Outturn	Variance
	£000's	£000's	£000's
HRA:			
Capital Grants	(730)	(729)	(1)
Major Repairs Reserve	(9,536)	(9,650)	(114)
HRA Capital Investment Reserve	(1,146)	(780)	366
Prudential Borrowing	(1,942)	(931)	1,011
Disabled Facilities Grant	(669)	(354)	315
Usable Capital Receipts	(1,056)	(577)	479
Total HRA	(15,079)	(13,021)	2058
General Fund:			
Prudential Borrowing	(1,408)	(315)	1,093
Capital Grants	(892)	(839)	53
Usable Capital Receipts	(544)	(449)	95
Direct from Revenue Contributions	(155)	(90)	65
Total General Fund	(2,999)	(1,693)	1,306
Grand Total	(18,078)	(14,714)	3,364

HRA Capital Financing

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

General Fund Capital Financing

1.24 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 2018.

Treasury Management

1.25 **Appendix 5** provides a brief report on the Treasury Management activity of the Council for 2018/19. In summary the Council operated throughout 2018/19 within the Authorised Limit and Operational Boundary limits approved in the Treasury Management strategy as approved by the Council in February 2018.

1.26 The key points from the summary report are:

- The overall borrowing requirement of the Council was £183.9m at 31 March 2019.
- The PWLB debt is £150.85m
- Effective internal borrowing is £33m
- No new PWLB borrowing was undertaken in 2018/19
- PWLB interest paid in 2018/19 was £5.4m
- Interest received on investments was £0.135m
- Repaid PWLB debt in year of £3.3m

2 Conclusions and Reasons for Recommendation

2.1 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 £0.434m. A further contribution of £0.505m has been made to the Invest to Save Reserve from efficiencies identified at Outturn. The improved outturn position 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, has commitments against it in 2019/20 so continued prudence is needed when committing against this reserve. Two budgets have been identified for rollover into 2019/20 totalling £0.016m

2.2 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.

2.3 Capital Programme

The Capital Programme saw good progress on approved schemes during the 2018/19 financial year. There are, however, a limited number of schemes which are work in progress and this requires that the associated expenditure and funding be carried forward into the 2019/20 financial year.

2.4 Capital Financing

Capital expenditure during 2018/19 has been fully financed in line with the approved programme.

2.5 Treasury Management

The Council operated in line with its agreed Treasury Management Strategy during the 2018/19 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 whilst interest receivable rose.

3 Consultation and Equality Impact

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

4 Alternative Options and Reasons for Rejection

4.1 The financial outturn report for 2018/19 is primarily a factual report detailing the actual position compared to previously approved budgets therefore there are no alternative options that need to be considered.

4.2 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.

5 Implications

5.1 Finance and Risk Implications

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

5.1.2 Members should note that the budgets against which we have monitored the 2018/19 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.

5.1.3 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 the budget has been balanced in 2018/19 and the level of reserves protected.

5.1.4 While the Council has effectively addressed its Strategic Financial Risks during 2018/19 it needs to be recognised that it 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.

5.2 Legal Implications including Data Protection

5.2.1 The Statement of Accounts is required to be prepared and audited by the 31 July 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 21 May 2019 which secures compliance with the Council's obligations.

5.3 Human Resources Implications

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

6 Recommendations

- 6.1 That Members note the outturn position in respect of the 2018/19 financial year
- 6.2 That the Strategic Director People, in consultation with the Cabinet Member for Finance, develops proposals for a base budget review of the General Fund and Housing Revenue Account.
- 6.3 That Members approve the proposed carry forward of revenue budgets as detailed in 2.2 above totalling £0.016m.
- 6.4 That Members approve the proposed carry forward of capital budgets detailed in Appendix 4 totalling £3.087m.

7 Decision Information

Is the decision a Key Decision? 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: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	Yes
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	Yes
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 Document Information

Appendix No	Title
1	General Fund Summary 2018/19
2	General Fund Outturn 2018/19
3	HRA Outturn 2018/19
4	Capital Expenditure Outturn 2018/19
5	Treasury Management Outturn 2018/19
Background Papers	
Report Author	Contact Number
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AGIN 7 (CAB 0613) 2019 – MTFP