

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – 21 JULY 2015**

Title of report	<b>PROVISIONAL FINANCIAL OUTTURN 2014/15</b>
Key Decision	a) Financial Yes b) Community Yes
Contacts	Councillor Nicholas Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Chief Executive 01530 454500 <a href="mailto:christine.fisher@nwleicestershire.gov.uk">christine.fisher@nwleicestershire.gov.uk</a>  Head of Finance 01530 454520 <a href="mailto:ray.bowmer@nwleicestershire.gov.uk">ray.bowmer@nwleicestershire.gov.uk</a>
Purpose of report	To present the Provisional Financial Outturn for 2014/15.
Reason for Decision	Requirement of Financial Procedure Rules
Council Priorities	Value for Money
Implications:	
Financial/Staff	Financial issues are contained within the report.
Link to relevant CAT	None.
Risk Management	There are significant financial risks to manage which were fully considered during the budget process.
Equalities Impact Screening	Not required.
Human Rights	No implications.
Transformational Government	No implications.
Comments of Head of Paid Service	The report is satisfactory
Comments of Deputy Section 151 Officer	The report is satisfactory
Comments of Monitoring Officer	The report is satisfactory

Consultees	Corporate Leadership Team
Background papers	<a href="#"><u>GENERAL FUND AND SPECIAL EXPENSES REVENUE BUDGETS 2015/16 – CABINET 10 FEBRUARY 2015</u></a>
Recommendations	<b>THAT CABINET NOTES THE PROVISIONAL FINANCIAL OUTTURN POSITION FOR 2014/15.</b>

## 1.0 INTRODUCTION

- 1.1 The Council is required to produce Financial Statements each year which “give a true and fair view” of the financial position and transactions of the Council. These have been prepared under International Financial Reporting Standards since 2010/11. The 2014/15 accounts will be considered and approved by the Audit and Governance Committee on 23 September 2015 after they have been audited
- 1.2 This report summarises the main elements of our financial performance in 2014/15 and the results are referred to as ‘provisional’ as they are still subject to external audit and may change.
- 1.3 Members will note that the financial tables are in more summarised form than those reported during the financial year and reflect various technical changes, although none of these adjustments affect the “bottom line” and consequently were not included in the original approved budget. The comparison between the approved budget and the expected actual expenditure is shown as a variance in each comparative table below.

## 2.0 GENERAL FUND

- 2.1 The expected final position on the General Fund is set out in Table 1. The provisional underspending of £1.6m is £0.6m more than projected when the 2015/16 budget was set in February 2015.
- 2.2 Budget reports presented to Cabinet and Council in February 2015 highlighted the increased volatility around the Council’s income sources, in particular New Homes Bonus and Business Rates, and the need to hold significantly higher revenue reserves than the minimum £1m set some years ago. It was agreed that in anticipation of a £1m underspending in 2014/15 it would be prudent to hold £2.4m in the General Fund Reserve and this could be achieved without impacting on service delivery.
- 2.3 The most significant variances for 2014/15 are explained below and summarised in Table 2.

Table 1	GENERAL FUND	2014/15	2014/15
LINE NO.		ORIGINAL ESTIMATE	ACTUAL
	<b>TOTAL DISTRICT EXPENSES</b>	<b>£'000</b>	<b>£'000</b>
1	CHIEF EXECUTIVE'S UNIT	4645	4546
2	DIRECTOR OF SERVICES	5384	4431
3	CORPORATE AND DEMOCRATIC CORE	54	40
4	NON-DISTRIBUTED COSTS	115	99
5	NET FINANCING COSTS	1148	1092
6	INVESTMENT INCOME	-43	-122
7	CORPORATE CONTINGENCY	160	0
8	PROVISION FOR BAD DEBT	0	150
9	LOCALISATION OF COUNCIL TAX GRANT – PARISH	87	87
10	REVENUE CONTRIBUTION TO CAPITAL	0	58
11	NET RECHARGES FROM GENERAL FUND	-1407	-1486
12	DEBT RESTRUCTURING PREMIUM	0	23
13	TRANSFER TO GEN FUND RESERVE	403	403
14	TRANSFER TO GENERAL RESERVE	0	1610
<b>15</b>	<b>NET COST OF SERVICE AFTER RECHARGES</b>	<b>10546</b>	<b>10930</b>
	<b>INCOME</b>		
16	REVENUE SUPPORT GRANT	2357	2363
17	COUNCIL TAX FREEZE GRANT 14/15	56	58
18	NEW HOMES BONUS	1395	1403
19	TRANSFER FROM COLLECTION FUND	147	147
20	COUNCIL TAX	4611	4611
21	NATIONAL NON DOMESTIC RATES BASELINE	1980	2349
		<b>10546</b>	<b>10930</b>

2.4 The additional £799k Planning income shown in Table 2 represents an increase of 145% on the original budget. There was a continuation of the increase in major applications received from 53 in 2012-3 to 73 in 2013-14, and 95 in 2014/15. A small number of schemes contributed a disproportionately high amount of fee income, such as the Aldi scheme at Sawley Cross (£126k) and solar farms each contributing tens of thousands up to £70k. Large housing schemes also contributed up to £32k in planning fees. There are a number of potential explanations for this, the lack of a five year supply of housing land encouraged house builders in particular to apply for planning permission to exploit the presumption in favour as set out in national policy. Since the five year supply has been achieved, however, housing schemes continue to come forward. There was also a run of solar farms, to exploit the national feed-in tariff, which ended in March 2015. Additionally North West Leicestershire is considered to be an

attractive location and the home to a number of house builders all of whom wish to have an active presence in the district. Therefore whilst the housing supply factor may lead to a reduction in the number of applications going forward, the market factors influencing the number of applications is not likely to change significantly in the short term and it is anticipated that the level of major applications will remain high at least for another year.

- 2.5 Prior to 1 April 2013 local authorities' Government Grant funding was announced before the start of each financial year and did not change. The introduction of a system of locally retained business rates from 2013/14 made this source of income far more volatile and introduced significant new risks, and opportunities, for the Council. As well as an ever-changing business rates base, the Council also shares the costs of appeals, debt write-offs etc. The picture was complicated further by the Council's participation in a County Pool during 2013/14. In February 2014 all of the participants in the Pool agreed to its temporary dissolution in 2014/15 in light of this volatility and the difficulties it caused in assessing whether or not having a Pool was beneficial to its participant councils. The Pool has resumed from 1 April 2015. Councils are continuing to develop their systems for projecting and monitoring this major income stream. In common with the rest of the information presented in this report the outturn figures for Business Rate income are provisional and subject to external audit. In 2014/15 an additional £368k Business Rates has been taken into the accounts compared with the original budget.
- 2.6 The Revenue Budget Contingency was not utilised, saving £160k. Managers have contained all their costs within their budgets without recourse to requests for supplementary estimates. The Contingency has not been called upon for a number of years and in light of this was reduced from £250k to £160k in the 2014/15 budget.
- 2.7 Waste Services income from the sale of recyclable materials has again exceeded its budget due to higher prices and volume than reflected in the budget. On-going risks from reduced paper quantities (as a national trend for receiving news and information electronically continues), thinner consumer product packaging and lower prices from contracts being re-procured did not all fully materialise. As these external factors remain on-going risks, income budget projections remain prudent compared to actual income received.
- 2.8 The Council has itself benefitted from a number of successful Business Rates appeals. This has produced a saving of £105k in 2014/15.
- 2.9 Investment income was £78k higher than budgeted chiefly because the Council is now lending for longer periods and getting higher returns. The current year's budget has already been updated to reflect the change.
- 2.10 Income from Local Land Charges is higher than budget which mostly reflects a recovering housing market. It is difficult to budget for income in this area and charges are set with the objective of breaking even over a three year period.
- 2.11 Legal Service income was £46k higher than budgeted. The legal services team have been selling legal services to other Council's for 5 years. The amount of income generated each year has increased and has been in excess of the targets set by the business plan for the service. The amount of income over and above the target this year is due in part to an increase in legal fees arising from S106 agreements and an increase in external clients and external income. The team operate in a commercial manner in dealing with internal and external clients, have a clear marketing strategy and an ambition to continue to reduce the net cost to the Council of providing legal services.

- 2.12 A change from quarterly to monthly direct debits has highlighted the need to correct the way Learn to Swim income is accounted for. At least 15 years ago the Council started to charge quarterly in advance for this service and at the time income was incorrectly credited to the accounts in advance of the service being provided. This meant that the first year there was an extra quarter's income taken into account but that at some point a future year would be short of a quarter's income. This has been corrected in 2014/15 when the Council has underspent and is able to make this necessary adjustment. The Council has also taken the opportunity to increase its bad debt provision by £150k. This is reflective of the resources being available in 2014/15 rather than there being any particular concerns around debt collection.

**Table 2**

<b>Major Variances</b>	<b>£'000</b>	<b>£'000</b>
<b>Adverse</b>		
Review of Bad Debt provision	-150	
Correction of Learn to Swim Income	-83	
	-233	-233
<b>Favourable</b>		
Additional Planning Fees	799	
Additional Retained Business Rates	368	
Unspent Revenue Budget Contingency	160	
Additional Recycling Income	131	
Savings on Business Rates paid	105	
Additional Investment Income	78	
Additional Land Charges Income	68	
Legal Services – increased external business/income	48	
Employee Costs	22	
Other	64	
	1843	1843
<b>Total</b>		<b>1610</b>

- 2.13 The employee budget is only slightly underspent overall (£22K). This is a lower underspending than experienced in previous years because the 2014/15 employee budgets were reduced to reflect a more realistic level of employee turnover and appropriate adjustments made to reflect savings from service reviews
- 2.14 An improving General Fund Revenue Budget performance has been reported throughout the financial year and the Cabinet has already explained its intention to increase the Council's General Fund balance at the end of the year using part of the 2014/15 underspending. The Cabinet is advised to wait until the Medium Term Financial Strategy is approved in September before deciding whether to approve additional expenditure funded from the additional £600k underspending in 2014/15.

### **3.0 HOUSING REVENUE ACCOUNT (HRA)**

- 3.1 The financial performance of the HRA is summarised in Table 3. The expected

final position is a surplus of £22k being £768k higher than the approved budget. The surplus on the account has been added to the HRA balance which stood at £5.291m at 31 March 2015.

<b>Table 3</b>	<b>2014/15</b>		
	<b>Approved Budget</b>	<b>Provisional Outturn</b>	<b>Provisional Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>HOUSING REVENUE ACCOUNT</b>			
Repairs and Maintenance	4,922	4,203	-719
Supervision and Management	2,516	2,311	-205
Provision for Doubtful Debts	171	93	-78
Capital Financing (Depreciation, Impairment & Debt Management)	6,869	6,570	-299
Total Expenditure	14,478	13,177	-1,301
Less Rental Income & Service Charges	-17,153	-16,857	296
Net Cost of Service	-2,675	-3,680	-1,005
Capital Financing (Principal & Interest)	3,432	3,397	-35
Investment Income	-25	-62	-37
Premature Loan Redemption Premiums	14	14	0
Net transfer from reserves	0	309	309
<b>NET (SURPLUS) / DEFICIT</b>	<b>746</b>	<b>-22</b>	<b>-768</b>

- 3.2 Reduced Rent Income of £296k resulted mainly from an increased level of empty properties compared to budget. This void loss has reduced towards the end of 2014/15 and so should not be an ongoing issue into 2015/16.
- 3.3 A valuation adjustment was needed on Garages following a correction to the valuation method the Council was using. Whilst this is not a real cost, the Council has been required to create a one-off reserve of £489k in its accounts. This will be reviewed each year and can be reduced when valuations increase. This will happen naturally as rent levels increase because valuations are now based on rental income.

3.4 Revenue Contribution to Capital Expenditure was reduced by £822k as a result of an underspending on the Decent Homes programme. This is explained further in the section on Capital below.

3.5 There was a £466k underspending on Repairs and Maintenance as follows: Responsive repairs £ 158k, Painting £115k, Garages £ 50k. and other cyclical repairs £143k.

3.6 The full budgeted contribution to the bad and doubtful debts provision was not required due to rent arrears levels not being as high as anticipated allowing a saving of £78k.

#### 4.0 SPECIAL EXPENSES

4.1 The expected final position on Special Expenses is an underspending of £25,000. Table 4 below gives further details.

<b>Table 4 Special Expenses</b>	<b>Original Budget £'000</b>	<b>Provisional Outturn £'000</b>	<b>Provisional Variance £'000</b>
Special Expenses	793	821	28
Net Financing costs	-107	-181	-74
Contribution to Earmarked Reserves	0	21	21
Expenditure Requirement	686	661	-25
Precept	584	584	0
Localisation of Council Tax Support Grant	96	96	0
<b>Transfer to Reserves</b>	<b>6</b>	<b>-19</b>	<b>-25</b>

4.2 The opening Special Expenses Reserves Balance was £121,000 and following the surplus of £19,000 for the year, this now stands at £140,000.

## 5.0 CAPITAL

5.1 The Council's capital spending is detailed in Table 5.

TABLE 5  Scheme	Original	Prior Year	In Year	In Year	Revised	Provisional	Provisional
	Budget	c/f	Approvals /funding	Slippage (Feb 2015 Cabinet)	Budget	Outturn	Variance
	£'000	£'000	£'000		£'000	£'000	£'000
<b>HOUSING</b>							
Improvements and Modernisation	14677		4717		19394	14807	-4587
Disabled Facilities Grants	546	153	17	-175	541	378	-163
<b>OTHER SERVICES</b>							
Parks and Recreation Grounds	342	14	6		362	189	-173
Waste and Recycling	190				190	178	-12
IT & Software	137	167	5		309	209	-100
Transport Account Vehicles	645				645	465	-180
Leisure Centres	12		30		42	42	0
Car Parks	132	1	-12	-32	89	71	-18
Coalville Market Upgrade	168		127	-117	178	192	14
Other Capital Expenditure	325			-100	225	108	-117
<b>TOTAL CAPITAL PROGRAMME</b>	<b>17,174</b>	<b>335</b>	<b>4,890</b>	<b>-424</b>	<b>21,975</b>	<b>16,639</b>	<b>-5,336</b>

5.2 There is always some slippage on Disabled Facilities Grant payments because approvals are given in advance of final payments being made. In 2014/15 additional slippage is primarily due to periods over the past two financial years where shortages in availability of Leicestershire County Council Occupational Therapists led to periods of time when no Disabled Facility Grant requests were received by NWLDC and as such no grant payments were made. The funding has been held in an ear marked reserve to cover any backlog that maybe forthcoming once the service is operating at full capacity.

5.3 The final Housing Revenue Account capital budget was under spent by £4.59m compared to the budget approved at Council in September of £19.39m. The main reason for this is a £3.1m underspend on the Decent Homes programme, of which £0.465m has been included in the 2015/16 capital budget for refusals and deferrals to complete the 2014/15 programme and additional slippage of £0.8m for works relating to 2014/15 programme have been completed in 2015/16. This saving has arisen due to a prudent approach in varying the budget in September 2014. At this time, the budget was increased by varying the revenue contribution to capital outlay (RCCO) to allow for full financial provision to complete the entire programme, inclusive of potential refusal of works or right to buy property sales which cannot be accurately predicted. On completion of the programme, this full budget provision was not required.