

# NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 12 JUNE 2018

Title of report	<b>PROVISIONAL FINANCIAL OUTTURN 2017/18</b>
Key Decision	a) Financial Yes b) Community Yes
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Purpose of report	To present the Provisional Financial Outturn for 2017/18.
Reason for Decision	Requirement of Financial Procedure Rules
Council Priorities	Value for Money
Implications:  Financial/Staff  Link to relevant CAT  Risk Management  Equalities Impact Screening  Human Rights  Transformational Government	<p>Financial issues are contained within the report.</p> <p>None.</p> <p>There are significant financial risks to manage which were fully considered during the budget process.</p> <p>Not required.</p> <p>No implications.</p> <p>No implications.</p>
Comments of Head of Paid Service	The report is satisfactory
Comments of Section 151 Officer	As report author, the report is satisfactory

Comments of Monitoring Officer	The report is satisfactory
Consultees	None
Background papers	None
Recommendations	<b>THAT THE FINANCIAL PERFORMANCE FOR 2017/18, INCLUDING THE IMPACT ON RESERVES AND BALANCES AS AT 31 MARCH 2018 IS APPROVED.</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.
- 1.2 This report summarises the main elements of our financial performance in 2017/18 and the results are referred to as ‘provisional’ as they are still subject to external audit and may change.
- 1.3 The 2017/18 accounts will be considered and approved by the Audit and Governance Committee on 25 July 2018 after they have been audited. This is the first year of faster closedown, whereby local authorities are required to approve and publish the accounts by the 31 May and 31 July respectively (was previously 30 June and 30 September).
- 1.4 During the 2017/18 year, greater emphasis was placed on robust financial management across the organisation. For the first time, budget holders were required to meet with finance colleagues in reviewing and creating the budget proposals that were agreed by Council in February of this year.
- 1.5 Moving forward, the Finance team will be building on the positive steps forward made to date with the launch of its finance business partnering service delivery model. The new approach will see budget holders and finance colleagues meet in a ‘finance clinic’, initially, on a quarterly basis. The key areas of focus within finance clinics will be to review budgetary variances and revise in year forecasts, identify and manage key budget lines that contribute to the volatility of the council’s outturn position and manage the timely expenditure of earmarked reserves. The purpose of this new approach is to drive value for money and in particular, reduce unexpected results in respect of the General Fund. Proposals in respect of the funding associated with the replacement of the council’s finance system can be found in section 2 below.
- 1.6 As part of the annual review of earmarked reserves, for which the S151 Officer has delegated authority, a number of requests that did not meet the criteria in respect of timing and known commitments were not approved. As a result, this has freed up reserves that have been reallocated in line with the council’s future priorities. More detail in respect of reserves can be found in section 6.

## 2.0 GENERAL FUND

2.1 The expected final position on the General Fund is set out in Table 1 of this report. The provisional surplus for the year is £3.271m, compared to a budgeted surplus of £934k. Details in respect of the treatment of this surplus can be found in 2.14 – 2.16 below. The most significant variances for 2017/18 are explained below and summarised in Table 2, also below, along with specific commentary regarding the most significant of these variances.

Line No.	Table 1	Original Estimate	2017/18	Provisional Variance
	General Fund		Provisional Outturn	
	<b>TOTAL DISTRICT EXPENSES</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	Chief Executive and Other	1,428	1,392	-36
2	Legal and Support	2,467	2,176	-291
3	Service Transformation/Finance	2,010	1,685	-325
	Community Services including Strategic			
4	Director of Place	4,791	5,140	349
5	Strategic Housing	483	461	-22
6	Regeneration and Planning	301	261	-40
7	Corporate And Democratic Core	45	31	-14
8	Non-Distributed Costs	87	167	80
9	Net Financing Costs	1,053	1,020	-33
10	Investment Income	-76	-165	-89
11	Provision For Bad Debt	0	150	150
12	Localisation Of Council Tax Grant	168	164	-4
13	Revenue Contribution To Capital	0	0	0
14	Net Recharges From General Fund	-1,187	-1,596	-409
15	Debt Restructuring Premium	0	23	23
16	FRS17	0	0	0
17	Transfer To Earmarked Reserves		1,414	1,414
18	Transfer To Self Sufficiency Reserve	935	1,857	922
19	Transfer To S106		142	142
20	P/L On Sale Of Assets		0	0
21	Section 106		0	0
<b>22</b>	<b>Net cost of service after recharges</b>	<b>12,505</b>	<b>14,322</b>	<b>1,817</b>
23	Revenue Support Grant	572	572	0
24	Council Tax Transitional Grant	0	26	26
25	New Homes Bonus	2,840	2,846	6
26	Transfer From Collection Fund	285	285	0
27	Other Grants	0	8	8
28	Council Tax	4,958	4,958	0
29	National Non Domestic Rates Baseline	3,850	5,627	1,777
		<b>12,505</b>	<b>14,322</b>	<b>1,817</b>

## Analysis of budgetary variances

<b>TABLE 2 - Major Variances</b>	<b>£'000</b>	<b>£'000</b>
<b>Adverse</b>		
Bad debt provision	-150	
Leisure Centres	-236	
Planning Fee Income	-187	
		-573
<b>Favourable</b>		
Business Rates Income	1,777	
Recycling Income	145	
Investment Income	89	
Salary underspends within the Chief Executive's directorate	179	
Rent Allowances and Rebates	255	
Revenues and Benefits Partnership Contributions	33	
Revenue Summons Income	74	
Planning Appeals and Associated Costs under Budget	166	
		2,718
<b>Total</b>		<b>2,145</b>

### **Business Rates**

- 2.2 Of the variances contributing to this position is the favourable movement in the level of business rates collected compared to the budgeted level. 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 and so on. The Council participates in a County Pool, which is a local mechanism for retaining business rate income within Leicestershire rather than divert back to Central Government, and mitigate against the risk of under achievement on income targets. 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.
- 2.3 In 2017/18 an additional £1.78m Business Rates has been taken into the accounts compared with the original budget. This is largely because our provision for appeals in relation to the 2010 rating list was significantly reduced throughout the year as a result of settlement of claims. As the Government has introduced a new business rates appeals system which has coincided with the 2017 revaluation and new rating list, we are yet to receive details of appeals against the 2017 rating list. In the absence of known formal appeals, we have increased our business rates provision based on likely appeals and have

also set aside an earmarked reserve of £614k to manage the impact of forthcoming appeals to our budgeted level of business rates.

- 2.4 £614k has been transferred to a business rates reserve to address liabilities surrounding appeals and it is recommended that £600k is transferred to the Coalville Project Reserve to enable the acquisition of an asset of community value. The remaining £1.869m has been transferred to the newly created Self Sufficiency reserve as agreed by Council on the 27<sup>th</sup> February 2018.

#### **Other favourable variances**

- 2.5 Additional recycling income of £145k was achieved as a result of favourable movement on commodity prices and an increase in recycling rates within the District.
- 2.7 Salary underspends of £179k within the Chief Executive's directorate, of which £57k is as a result of the phase 1 management restructure, with the remaining savings as a result of vacant posts and staff turnover at senior management level.
- 2.8 Investment income was £89k higher than budgeted chiefly because the budget for the financial year was not reflective of the actual level of investment income anticipated. The current year's budget has been updated to reflect the forecast level of investment income moving forward.
- 2.9 Rent allowances and Rent rebates was underspent by £255k as a result of as a result of less benefits paid than budgeted for (the budget was based on the 2016/17 mid-year subsidy estimate submitted in August 2016), differences in overpayments recovered and a reduction in the bad debt provision for overpayment invoices. This variance was not acknowledged until final outturn and as a result, contributed to the movement between period 11 and outturn position. Robust monitoring will be implemented in this area moving forward with Revenues and Benefits Partnership colleagues to ensure that outturn position is accurately forecast throughout the year.
- 2.10 Contributions towards the Revenues and Benefits Partnership were £33k less than budgeted for and there was an increase in the Summons Income of £66k which was mainly due to more recovery action being taken in the year.
- 2.11 The Council has benefitted from a lower number and value of planning appeals where costs are awarded against us. This has produced a saving of £166k in 2017/18.

#### **Adverse variances**

- 2.12 On the adverse side we have set aside an extra £150k for bad debts provision after reviewing our bad debts ensuring that we have a realistic and accurate assessment. There was £236k adverse variance in respect of leisure services as a result of £65k increased expenditure and £171k less income than budgeted.
- 2.13 Finally, there was a decrease of £187k in Planning Fee Income, which was an improvement to the £300k reported at the end of quarter 3.

## **Surplus allocation**

- 2.14 In line with the decision made by Council on 27 February 2018 the self-sufficiency reserve was created using the balance in excess of a minimum balance for the General Fund (£900k). In line with the decisions made by council at this meeting, £1.857m of the £3.27m surplus arising on the 2017/18 year has been transferred to the self-sufficiency reserve, taking the reserve from £900k to £2.76m. The principle purpose of this reserve is that it is to be used to support a change programme aimed at meeting the projected deficits arising over the 5 year period of the council's Medium Term Financial Strategy (to 2023) and maximise income generating opportunities for ongoing self-sufficiency. As part of this decision, members have also committed to contributing the predicted surplus arising on the 2018/19 year of £299k will also be paid into the reserve.
- 2.15 It is proposed that the remaining £1.414m of the £3.271m surplus is transferred to reserves for the purposes of:
- 2.16.1 Creation of earmarked reserve of £614k for the purposes of a local provision for future business rates appeals, as outlined in paragraph 2.5 above.
- 2.16.2 Creation of an earmarked reserve of £600k for the purposes of acquiring and redeveloping assets in the Coalville area as part of the Coalville Project; and
- 2.16.3 Contribution of £200k to an existing earmarked reserve of £200k, set aside for the purposes of replacing the council's finance system. Members will note that a separate report is on the agenda of this meeting, seeking approval of this project.
- 2.16 An indicative capital provision of £450k was included within the 2018/19 General Fund capital programme for this system replacement. However, following further soft market testing and development of the required system specification, it has been identified that a hosted, cloud based software solution will deliver a better operational and cost effective solution. Hosted, cloud based systems are for the most part, accounted for as revenue expenditure since they constitute an expense, whereas in contrast, on premise solutions constitute the acquisition of an intangible asset and therefore meet the definitions of capital expenditure. As a result, it is requested that £100k capital provision is retained to support implementation costs which will meet the definitions of capital expenditure, and that £200k of the additional surplus arising on the 2017/18 financial year is contributed to an existing reserve identified of £200k, taking the total provision for this system replacement to £500k.

## **Future financial management improvements**

- 2.17 Given the movement between period 11 forecast outturn and outturn for the year, the main focus of the first tranche of finance clinics during 2018/19 (as referred to in paragraph 1.5 above) will be on variance analysis of the 2017/18 year. This exercise will ensure that key budget lines that have contributed to the unplanned outturn position are identified and robust monitoring is put in place for the 2018/19 year, thereby allowing the council to make more timely decisions regarding the use of additional surpluses, or indeed how to deal with forecast deficits.

### 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 £520k being £378k higher than the approved budget. The surplus on the account has been added to the HRA balance which stood at £9.432m at 31 March 2018.

Table 3	2017/18		
	Approved Budget	Provisional Outturn	Provisional Variance
	£'000	£'000	£'000
<b>HOUSING REVENUE ACCOUNT</b>			
Repairs and Maintenance	5,325	5,423	98
Supervision and Management	2,723	2,580	-143
Provision for Doubtful Debts	125	116	-9
Capital Financing (Depreciation, Impairment & Debt Management)	6,076	5,837	-239
Total Expenditure	14,249	13,956	-293
Less Rental Income & Service Charges	-17,736	-17,774	-38
Net Cost of Service	-3,487	-3,818	-331
Capital Financing (Principal & Interest)	3,382	3,377	-5
Investment Income	-44	-86	-42
Premature Loan Redemption Premiums	7	7	0
<b>NET (SURPLUS) / DEFICIT</b>	<b>-142</b>	<b>-520</b>	<b>-378</b>

- 3.2 The significant variances in respect of the Housing Revenue Account are explained below.

- 3.3 Favourable variances:

- Additional rental income of £104k, largely as a result of reduced void loss;
- Reduced depreciation charge of £146k;
- Unused earmarked reserves transferred back to HRA of £59k;
- Increased salary capitalisation of £112k as a result of additional employee costs of interim structure;
- Gas and electric underspends of £50k;
- Contract cleaning underspends of £44k;
- Council Tax underspends on void properties of £89k; and
- Additional investment income of £42k.

### 3.4 Adverse variances:

- Repairs and maintenance overspends of £170k, net of new ear marked reserve;
- Reduced service charges, garage rental income, lifeline charges and heating charges of £90k;
- Salary overspends, mainly as a result of interim Asset Management costs of £52k;
- Increased corporate recharges of £95k; and
- Increased 'non-distributed costs (early retirement of £45k.

## 4.0 SPECIAL EXPENSES

4.1 The expected final position on Special Expenses is an underspend of £13k. The budgeted contribution to Special Expenses reserves was £6k and the actual outturn was a contribution to reserves of £19k. This movement was a result of increased burial fee income and a reduction in repairs and operational purchases at Coalville parks and recreation grounds. 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	519	490	-29
Net Financing costs	-26	-19	7
Contribution to Earmarked Reserves	0	9	9
Expenditure Requirement	493	480	-13
Precept	435	435	0
Localisation of Council Tax Support Grant	64	64	0
Transfer from/to Reserves	-6	-19	-13

4.2 The opening Special Expenses Reserves Balance was £64k and following the surplus of £19k for the year, this now stands at £83k.



## 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	In Year	Revised	Provisional	Provisional
	Budget	c/f	Approvals /funding	Slippage	Acceleration	Budget	Outturn	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>HOUSING</b>								
Improvements and Modernisation	10,152	584	-	(1,730)	-	9,006	6,179	(2,827)
Disabled Facilities Grants	1,032	151	(391)	(139)	-	653	647	(6)
<b>OTHER SERVICES</b>								
Parks and Recreation Grounds	-	-	19	-	-	19	19	-
IT & Software	149	335	(389)	-	-	95	87	(8)
Transport Account Vehicles	1,307	(61)	-	(734)	-	513	491	(22)
Leisure Centres	15	418	(14)	-	-	419	10	(409)
Car Parks (inc Ashby Health)	513	438	77	(52)	-	974	295	(680)
Coalville Market Upgrade	-	30	(11)	-	-	19	-	(19)
Coalville Park-Reconfigure Depot, replace building	-	95	60	-	-	155	51	(104)
Swannington Depot Demolition	35	-	-	-	-	35	1	(35)
Memorial Clock Tower	-	-	120	-	-	120	-	(120)
Moirra Furnance Toilet Unit	20	-	-	-	-	20	19	(1)
<b>TOTAL CAPITAL PROGRAMME</b>	<b>13,223</b>	<b>1,989</b>	<b>(530)</b>	<b>(2,655)</b>	<b>0</b>	<b>12,026</b>	<b>7,797</b>	<b>(4,229)</b>

5.2 The final Housing Revenue Account capital budget was under spent by £2.827m compared to the budget approved at Council in February of £10.152m plus slippage from prior year of £584k giving a revised budget of £9.006m. The main reason for this is the under spend and slippage of £1.730m into 2018/19 is in respect of non-decency improvements to council housing stock.

## **6.0 RESERVES**

- 6.1 The council holds reserves that are earmarked for a particular purpose and are set aside in order to meet known or predicted future expenditure in relation to that purpose. The reserves are monitored alongside the budget as part of monthly monitoring, however, reserves have not traditionally been reported to Cabinet.
- 6.2 As part of the year end close down new earmarked reserves are requested by various departments. These are checked by the Finance team for accuracy before being presented to the S151 Officer for approval under delegated powers.
- 6.3 Earmarked reserves are held for the following purposes:
- GENERAL RESERVES - Reserves retained for service use as the result of decisions occurring that cause anticipated expenditure to have been postponed or delayed, which have been allowed to be carried forward.
  - ASSET PROTECTION - Sums set aside for major schemes, such as major repairs, refurbishments or asset replacement.(capital/major repairs reserve)
  - EXTERNAL FUNDS - These are unspent balances of budgets for specific schemes funded from external contributions. E.g. DFGS, S106 etc.
- 6.4 In recent years, the level of General Fund reserves has risen as a result of in-year underspends and the subsequent allocation of these funds to projects. An example of this is the Coalville project fund, shop front grants and enterprising NWL funding pot, which are all held in reserves.
- 6.5 As detailed in paragraph 1.5 above, finance clinics will focus on ensuring that earmarked reserves are expended in a timely manner in line with the purposes in which they have been set aside.
- 6.6 As part of the annual review of earmarked reserves, £698k of existing reserves have been identified as no longer being required and Cabinet approval is therefore sought to reallocate these reserves as follows:
- 6.6.1 Allocation of £486k to Strategic Site Acquisition. This earmarked reserve will be used to support the acquisition of sites within the District that do not meet the criteria for use of funds from the self-sufficiency reserve but are in the public interest in terms of regeneration of key towns within the District; and
  - 6.6.2 Allocation of £200k towards the finance system as outlined in paragraph 2.16.3 above.
- 6.7 Table 6 below summarises the position in respect of earmarked reserves and other reserves held by the council.

<b>Table 6</b>	
<b>Reserve</b>	<b>£'m</b>
General Fund Earmarked Reserves	9.7
Special Expenses Earmarked Reserves	0.009
Housing Revenue Account Earmarked Reserves	0.62
Asset Protection Fund	0.165
Other General Fund Reserves	0.24
General Fund General Reserves (agreed minimum balance)	1.54
Self-Sufficiency Reserve (General Fund)	2.76
HRA minimum working balance	1.0
HRA other reserves (Shops)	0.006
HRA Loan Redemption Reserve	8.43
Special Expenses Reserves	0.084
S106	0.81
Other	0.006
<b>Total Reserves</b>	<b>25.37</b>