

POLICY & FINANCE COMMITTEE

28 JUNE 2018

FINANCIAL OUTTURN REPORT TO 31 MARCH 2018

1.0 Purpose of Report

1.1 To present to Members the 2017/18 financial outturn position on the Council's revenue and capital budgets, including:-

- General Fund Revenue
- Housing Revenue Account
- Capital Programme
- Provisions and Impaired Estimates on Debtors
- Usable Reserves
- Collection Fund
- Balance Sheet
- Treasury Management

1.2 This report provides Members with a summary of actual income and expenditure compared to the revised budget and how any surpluses/deficits have been allocated to/from reserves.

1.3 To seek Committee approval for the capital financing arrangements for 2017/18.

1.4 To seek Committee approval for the proposed capital programme.

1.5 To seek Committee approval for the 2017/18 carry forwards into 2018/19.

1.6 To seek Committee approval for the movement in Provisions and Impaired Estimates on Debtors, and the creation of additional Usable Reserves.

1.7 To seek Committee approval for the individual contributions to, and withdrawals from, Usable Reserves.

1.8 To present Members with the Annual Report on Treasury Management Activity for 2017/18 and to demonstrate how the Treasury Management activity links to the Treasury Management Strategy.

2.0 Background Information

Overview of General Fund Revenue Outturn for 2017/18

2.1 The accounts show an under spend of £0.761m on service budgets, with a total underspend variance of £3.316m, of which £1.911m is the New Homes Bonus allocation and £1.405m due to other positive variances) as follows:-

	Budget £'m	Outturn £'m	Variance £'m
Economic Development	2.351	2.154	(0.197)
Homes & Communities	2.657	2.474	(0.183)
Leisure & Environment	4.788	4.444	(0.344)
Policy & Finance	5.302	5.265	(0.037)
Net Cost of Services	15.098	14.337	(0.761)
Other Operating Expenditure	5.748	4.830	(0.918)
Finance & Investment Inc & Exp	1.415	1.284	(0.131)
Taxation & Non Specific Grant Inc	(16.788)	(19.887)	(3.099)
Net Cost of Council Expenditure	5.473	0.564	(4.909)
Transfer to/-from Usable Reserves	1.137	4.462	3.325
Transfer to/-from Unusable Reserves	(6.610)	(5.017)	1.593
Transfer to/-from General Reserves	0.000	(0.009)	(0.009)

2.2 The actual outturn for the year (the 'Outturn' column in the table above) is a net transfer to the General Fund Reserve of -£0.009m, which increases the balance from £1.746m at 1 April 2017 to £1.737m at 31 March 2018. This is in relation to moving the balance of the Land Charges reserve into the General Fund balance to consolidate the reserves.

2.3 As can be seen from the table above, there are significant variances in service areas and other budgets. Looking at the underlying trends, the net services underspends have not been achieved through reductions in service delivery. The main reasons for the underspends are due to overachievement of income, recovery of rent allowance overpayments and improved recovery of housing benefit together with delayed expenditure on setting up the housing development company:

- **Net Cost of Services - Underspend of £0.761m mainly relates to:-**
 - £0.086m – Related to the Development Company set up costs. The estimated profile of payments has not matched the actual profile of payments.
 - £0.149m – Development Management underspend mainly due to increased income relating to a large planning application at Fernwood.
 - £0.177m – Refuse collection underspend due to increased income from trade waste and garden waste together with changes in staffing profile.
 - £0.070m - Rent Allowances relates mainly to overpayments of Housing Benefit that have been recovered during the year.
 - £0.093m – 99.56% recovery of Housing Benefit payments from DWP (when 99.00% budgeted). Real Time Information (used in conjunction with the DWP) has led to a reduction in overpayments of Housing Benefit and hence a higher recovery through subsidy.
 - £0.094m – Additional income received for licences and fees and charges together with vacancies within the term contribute to this underspend.
 - £0.092m – Other minor variances.

The level of underspending on Service Budgets managed by the Business Managers of £0.761m represents 5.04% of the total service budgets. **Appendix A** provides a commentary on the detailed variances that make up this net underspend including the main variances detailed above.

- **Other Operating Expenditure – Underspend of £0.918m:-** This underspend includes a positive adjustment to the provision for bad debts of £0.905m. This adjustment relates mainly to a S106 invoice that was outstanding as at 31st March 2017. The decision was taken in the previous year to fully provide for this invoice. In 2017/18 officers liaised with the developer and this invoice has now been cancelled, due to a change in the S106 agreement, allowing the release of the provision. The S106 monies have been paid during 2018/19.
- **Finance & Investment Income and Expenditure – Underspend of £0.131m:-** This underspend relates to over achievement of interest receivable and underspends on superannuation budgets.
- **Taxation & Non Specific Grant Income – Underspend of £3.099m:-** The main variances relate to:
 - New Homes Bonus –The New Homes Bonus grant of £1.911m was not originally budgeted to be received. This has been transferred into the Council’s Usable reserves.
 - Net over-estimate of Business Rates growth of £0.849m – There has been an under estimate of £1.037m together with an over estimate of £1.866m included within Transfer from Unusable reserve. Within the Budget papers, for the 2017/18 financial year, £1.1m was identified as the amount of growth that the Council would generate from the Business Rates system. This growth, although achieved, has to be transferred to the Nottinghamshire Business Rates Pool and then distributed in accordance with the Business Rates Pool arrangement.
 - Other minor variances of £0.137m.
- **Transfer to Usable Reserves – Over transfer of £3.325m.** This is the additional appropriation of the New Homes Bonus (£1.911m) received and the additional appropriation to earmarked reserves (£1.414m).
- **Transfer to Unusable Reserves – Over transfer of £1.593m.** This mainly relates to the brought forward deficit on Business Rates (£1.886m) which offsets against the over-estimate of growth in Taxation and Non Specific Grant income. Minimum Revenue Provision (MRP) Underspent by £0.307m. Council approved a change to the MRP policy at its meeting 12th December 2017. This allowed the release of £0.307m against the original budget.

Carry Forwards

- 2.4 Previous years have seen officers requesting carry forwards of underspends that relate to the timing of payments that have extended past the year-end date of 31st March in year. Given the level of underspend achieved by the Council this year, £0.224m has been approved, by the s151 Officer, to be carried forward into 2018/19. These carry forward underspends are detailed in paragraph 2.19.
- 2.5 Any unspent grants are dealt with separately, and are transferred to the balance sheet for either repayment or expenditure in the following year dependent upon its terms and conditions.

Overview of Housing Revenue Account Outturn for 2017/18

- 2.6 With reference to the ‘Variance’ column in the table below, the accounts show an under spend variance against the approved budget of (£0.431m) for the HRA as follows:

	Budget £'m	Outturn £'m	Variance £'m
NSH Management Fee	8.118	8.118	0
Council Managed Expenditure	(21.399)	(21.224)	0.175
Income	(21.815)	(22.543)	(0.728)
Net Cost of HRA Services	(35.096)	(35.649)	(0.553)
Other Adjustments	(2.618)	(2.496)	0.122
(Surplus)/Deficit on HRA Services	(37.714)	(38.145)	(0.431)
Movements in Reserves			
Transfer to/from Usable Reserves	2.106	2.106	0
Transfer to/from Unusable Reserves	27.453	27.453	0
Transfer to Major Repairs Reserve	8.155	8.586	0.431
Total	0	0	0

2.7 A more detailed commentary of the variances is provided at **Appendix B**.

2.8 The actual outturn for the year (the 'Outturn' column in the table above) is a net transfer to the Major Repairs Reserve of (£8.586m), which increases the Reserve from that budgeted by £0.431m to £6.570m. The prudent level of reserve set on the HRA is still £2m.

Overview of Capital Outturn 2017/18

2.9 Policy and Finance Committee approves all variations to the Capital Programme and the revised budget of £32.163m was approved by Policy and Finance at the 22nd February 2018 meeting.

2.10 In summary, the accounts show lower levels of expenditure of (£25.022m) or 21% below budget, when compared against the approved revised capital programme budget as follows:

	General Fund Programme	HRA Programme	REFCUS*	Total
	£m	£m	£m	£m
Approved Programme	11.923	18.676	0.519	31.118
Variations to Programme approved in Year on 22 February 2018	0.678	(1.194)	1.121	0.605
Revised Programme	12.601	17.482	1.640	31.723
Outturn	8.383	15.047	1.592	25.022
Variance overspend/(underspend)	(4.218)	(2.435)	(0.048)	(6.701)

*REFCUS relates to Revenue Expenditure funded from Capital under Statute i.e. expenditure on non-Council-owned assets e.g. disabled facilities grants.

2.11 Capital spending in the year totalled £25.022m, and this expenditure has been funded by a combination of borrowing, external grants and contributions, receipts, major repairs reserve and revenue contributions. The committee is requested to approve the capital financing proposals as outlined in **Appendix C** and summarised below:

	General Fund Programme £m	HRA Programme £m	Total £m
Borrowing	3.577	8.056	11.633
External Grants & Contributions	1.666	6.765	8.431
Capital Receipts	1.573	0.427	2.000
Revenue Contributions	2.958	0.000	2.958
Total	9.774	15.248	25.022

- 2.12 The pace of delivery on the Capital Programme has been maintained during the year, resulting in an achievement of 79% spend of the revised programme budget. However, as with all financial programmes, there will always be an element of variation on capital schemes at the end of the financial year, and the Committee is requested to approve the re-profiling of capital schemes totalling £6.339m as detailed in **Appendix D**. This is because the majority of the schemes are already committed, with the funding for these held in the Council's reserves. For clarity, where a scheme has been completed, the balance will not be carried forward.

Provisions against Future Events

- 2.13 Provisions are made when an event has taken place that gives the Council an obligation that probably requires settlement, can be reasonably estimated, but where the timing of the payment is uncertain. Good practice requires that any movements in a Provision should be approved separately by Committee. The provisions provided for are as follows:

Description	Balance B/Fwd 1.4.17 £m	Movement in Year £m	Actual Balance 31.3.18 £m
General Fund - Provisions			
Provision for Appeals – NNDR settled within 12 months	(0.799)	(0.725)	(1.524)
Provision for Appeals – NNDR settled after 12 months	(2.786)	1.459	(1.327)
Total:	(3.585)	0.734	(2.851)

The above provisions relate to appeals against Rateable Values allocated against properties liable for Business Rates. The amounts shown in the Statement of Accounts (and hence in the table above) relate to NSDC's element for the provision for appeals. During the year £1.834m was charged against the provision in relation to settled claims, of which 40% is applicable to NSDC.

- 2.14 The Council receive external advice (from Analyse Local) relating to the level of provision that should be held. The Advisors suggest that there is a risk of £4.682m which relates to the Rateable Value list which began in 2010. From the revaluation of the 2010 ratings list which occurred in 2017, there has been limited information relating to the levels of appeals due to the Government's new "Check, Challenge, Appeal" process. Due to this, it is difficult to forecast the level of provision needed for the 2017 ratings list. As issues with appeals have been a national problem for Councils, the Government made an allowance of 4.7%

within the NNDR multiplier to compensate Council's for the potential loss in Business Rates. It is felt prudent to set aside 4.7% of Gross Rates payable due to the lack of information relating to potential losses. This amounted to £2.446m (including an extra allowance of £0.187m for larger properties) meaning together with the £4.682m an overall provision of £7.128m is needed. NSDC's share of this is 40% (£2.851m). The changes between long, after 12 months, and short, within 12 months, relate to the profile of the estimate settlement dates of the claims supplied by Analyse Local.

Impaired Estimates on Debtors

- 2.15 Impaired Estimates on Debtors is an estimation of the amount that will remain uncollectable after a certain time period and will require write off in the future accounts of the Council. They are calculated on the age and amounts of debt owed to the Council based on a hierarchical percentage i.e. the older the debt, the greater likelihood of non-collection. Good practice requires that movements in the Impaired Estimates on Debtors should be approved separately by Committee, and these are as follows:

Description	Balance B/Fwd 1.4.17 £m	Movement in Year £m	Actual Balance 31.3.18 £m
General Fund - Impaired Estimates on Debtors			
Sundry Debts	(1.368)	0.905	(0.463)
Council Tax Debts	(0.151)	(0.008)	(0.159)
Business Rates Debts	(0.193)	0.003	(0.190)
Total:	(1.712)	(0.900)	(0.812)
HRA - Impaired Estimates on Debtors			
Former Tenants	(0.207)	0	(0.207)
Current Tenants	(0.079)	(0.008)	(0.087)
Total:	(0.286)	(0.008)	(0.294)

The movement on Sundry Debts relates to a S106 invoice that was outstanding as at 31 March 2017. The decision was taken in the previous year to fully provide for this invoice. During 2017/18, officers have liaised with the developer and this invoice has been cancelled, due to a change in the S106 agreement, allowing the release of the provision. The new S106 monies have been paid during 2018/19.

Usable Capital Reserves

- 2.16 A Reserve is created for a specific future purpose or to cover contingencies. In accordance with the Code; these Usable Reserves must be separately identified between those that are retained for Capital purposes and those that are retained for Revenue purposes. Again, good practice dictates that any movements in existing reserves, or the creation of any new reserves, be approved by Committee.
- 2.17 Capital reserves are used to fund the approved capital programme within year, and the position as at 31 March 2018 is as follows:

Description	Balance B/Fwd 1.4.17 £m	Cont'n in Year £m	Use in Year £m	Actual Balance 31.3.18 £m	Committed to future Projects
Capital - General Fund					
Usable Capital Receipts	0	4.485	1.573	2.912	2.903
Capital Grants Unapplied	4.102	0.464	0.001	4.565	2.122
Capital - HRA					
Usable Capital Receipts - DFG's	0.044	0.685	0.729	0	0
Usable Capital Receipts - HRA	2.636	0.847	0	3.483	1.543
Usable Capital Receipts - RTB's	1.211	0.452	0.427	1.236	1.121
Major Repairs Reserve (MRR)*	9.708	8.587	11.723	6.572	6.572
Total:	17.701	15.512	14.445	18.768	14.261

* Resources will be added to the MRR to cover the budgeted commitments in the Capital Programme in addition to the above.

Usable Revenue Reserves

2.18 Revenue reserves are used to fund anything that is not capital in nature. They cover such areas as donations, external grants and contributions for future service provision, or specific sums of money held for a specific purpose. The movement on earmarked General Fund Reserves is as follows:

	Balance b/fwd £	Used in year £	Added to in year £	Balance at 31 Mar 2018 £
General Fund Reserves				
Investment Realisation Fund	(91,890)	0	0	(91,890)
Election Expenses Fund	(163,349)		(56,975)	(220,324)
Insurance Fund	(399,664)	14,000	(12,792)	(398,456)
Repairs And Renewals Fund	(2,500,000)	622,557	(533,744)	(2,411,187)
Land Charges	9,137		(9,137)	0
Building Control Surplus	66,336		(59,259)	7,077
Museum Purchases Fund	(11,414)		0	(11,414)
Training Provision	(199,798)	48,616	(1,000)	(152,182)
Community Safety Fund	(231,955)	33,789	(66,091)	(264,257)
Restructuring And Pay	(100,000)		0	(100,000)
Court Costs	(95,325)	36,606	(1,050)	(59,769)
Change/Capital Fund	(10,907,366)	6,739,962	(4,877,971)	(9,045,375)
Planning Costs Fund	(400,000)	129,855	0	(270,145)
Palace Theatre Friends	(200)	200	0	0
Unlawful Occupation Of Land	(10,000)	750	0	(9,250)
Fly Tipping Fund	(100,000)	17,500	(17,500)	(100,000)
Homelessness Fund	(243,185)	11,310	(95,849)	(327,724)
Revenue Grants Unapplied	(117,740)	22,665	(90,155)	(185,230)
Fuel And Energy Reserve	(100,000)	29,858	0	(70,142)
Refuse Bin Purchase	(30,000)	20,000	(5,000)	(15,000)

Energy & Home Support Reserve	(142,350)	25,770	0	(116,580)
Growth And Prosperity Fund	(1,151,782)	136,379	(784,506)	(1,799,909)
WHOP Reserve	0	0	(110,849)	(110,849)
Emergency Planning Reserve	(50,000)	0	0	(50,000)
Other Earmarked Reserves	(466,209)	466,209	0	(0)
Welfare Reform	(60,000)	34,226	0	(25,774)
Management Carry Forwards	(0)	0	(224,268)	(224,268)
Development Company	(0)	0	(4,000,000)	(4,000,000)
Capital Financing Provision	(3,252,850)	3,030,767	(1,099,224)	(1,321,307)
Mansfield Crematorium	(161,000)	20,785	0	(140,215)
Gen Fund Bal Bfwd	(1,746,000)	9,137	0	(1,736,863)
Total General Fund	(22,656,604)	11,450,941	(12,045,370)	(23,251,033)
Revenue - HRA				
HRA - Working Balance	(2,000,000)	0	0	(2,000,000)
Total HRA	(2,000,000)	0	0	(2,000,000)

2.19 During the year two new reserves have been set up:

- The Management carry forward reserve £0.224m – This reserve was set up to pay for specific initiatives that Business Managers requested. These were:
 - £0.010 – Flood and Beacon Status grants
 - £0.014 – CCTV Control room use
 - £0.007 – Hawtonville Development Fund
 - £0.012 – Ollerton and Boughton Neighbourhood Study
 - £0.086 – Development Company set up costs
 - £0.035 – Lorry Park ANPR Controlled access
 - £0.060 – Contribution to Social Mobility Index
- Development Company Reserve £4.000m – This reserve was set up to pay for the equity funding needed to set up the Development Company as approved at Policy and Finance on 25 January 2018.

The Collection Fund 2017/18

2.20 The Collection Fund accounts for the income from the collection of Council Taxes and Business Rates, and their subsequent disbursement to local authority preceptors and central government.

2.21 The in-year surplus on the Council Tax account was £0.138m, which increased the overall balance from a surplus of £2.609m at 1 April 2017 to a surplus of £2.747m at 31 March 2018. A surplus of £0.077m was declared in January 2018 which will contribute to the 2018/19 budgets.

2.22 The Code prescribes that the Statement of Accounts only show the element of Council Tax that relates to Newark & Sherwood District Council. In this regard, the share of the Council Tax surplus of £2.747m that relates to Newark & Sherwood District Council as at 31 March 2018 is £0.348m.

- 2.23 This year, the Council's Business Rates account has benefitted from not having to increase the provision for outstanding appeals, which has meant that the appeals provision could be maintained at £7.128m of which £2.851m is the NSDC share.
- 2.24 The Code prescribes that the Statement of Accounts only show the element of business rates that relates to Newark & Sherwood District Council. In this regard, the share of the business rates deficit that relates to Newark & Sherwood District Council as at 31 March 2018 is £0.302m.

Pensions

- 2.25 The details regarding the Council's share of the Nottinghamshire County Council Pension Fund are provided for Members consideration at **Appendix E**.
- 2.26 Barnett Waddingham are the Pension Fund's appointed Actuary and their report sets out the assumptions used to prepare the IAS19 pension figures reported in the Council's accounts. It is best practice to consider these assumptions prior to agreeing their use and inclusion in the Statement of Accounts for 2017/18. For this reason, the Accounts & Audit Committee received and approved these assumptions at its meeting on 25 April 2018.

The Balance Sheet at 31 March 2018

- 2.27 Consideration of the Council's Balance Sheet does not feature significantly in budget setting and monitoring and yet, if not managed and reviewed correctly, a number of balances may be hidden that could have a major impact on the revenue outturn in any one year. Balance Sheet valuation and management is at the heart of the changes being driven by the International Financial Reporting Standards, and it is therefore important that in reviewing the Final Accounts, due consideration is given to the main features of the Balance Sheet and year to year changes as follows:
- 2.28 The significant movements on the Balance Sheet that are worthy of note are:
- Property, Plant & Equipment increased by £64.845m which relates in the main to an increase in the valuation of Council Dwellings (£50.000m) due to a full revaluation being completed on this. In year Capital expenditure amounted to £23.430m, other movements related to disposals and depreciation.
 - The Pension liability decreased by £3.09m from £71.926m to £68.836m culminating mainly from a change in financial assumptions (a change to the way that the discount rate applicable has been calculated from the Spot Rate approach to the Single Equivalent Discount Rate approach) from 31st March 2017.
 - Short Term Debtors has increased from £7.617m to £12.190m (£4.573m) mainly relating to an invoice to Notts County Council, which was not due by 31st March 2018, relating to their contribution to Gladstone House (£3.200m).
 - Cash and Cash Equivalents have reduced by £1.804m throughout the year to £15.230m which relates to the redemption of short term deposits with Money Market Funds in order to pay invoices throughout the year.

Treasury Management Outturn Report

- 2.29 Under the Treasury management Code of Practice, an annual outturn report is required to be presented to Council to explain activities in the year. The report is presented here for information at **Appendix F**, and it includes the Prudential Indicators that the Council is required to report and monitor.

- 2.30 The report details 4 occasions of which the Prudential Indicator relating to Interest rate exposure was exceeded. The maximum by which the limit was exceeded was £2.181m for 1 day during February 2018. The timing of receipt of income meant that excess funds were receipted into the bank account, which needed to be invested, as the money would have been at greater risk due to breaching the counterparty investment limit should they not have been. This has arisen as there is a cash limit on this indicator, rather than a percentage basis, as set within the Treasury Management Strategy approved at Council on 9 March 2017.

3.0 Options, Risks and Reasons for Recommendations

3.1 Statement of Accounts 2017/18

The unaudited Statement of Accounts for 2017/18 were presented to an informal meeting of the Accounts and Audit Committee on 6 June 2018 for consideration and onward submission to the external auditor (KPMG) for audit and certification. The Council must publish on its website prior to 31 May, its unaudited Statement of Accounts. The audited Statement of Accounts must then be approved by 31 July. There would be a serious impact on the council's accountability, reputation and standing nationally and locally if it were to miss this deadline.

3.2 Revenue Expenditure 2017/18

There are no options for Members to consider as the outturn represents the final position at the end of the financial year. Due consideration needs to be given to the ongoing effects of any reported in-year service overspends on the 2018/19 budgets, and early action is essential to mitigate further impacts on General Fund balances.

3.3 Capital Expenditure and Financing 2017/18

There are no options for Members to consider as the financing is in accordance with approvals already obtained. The reprofiling on the Capital Programme may present a challenge to the Council's capacity to deliver the full programme of planned works in 2018/19.

3.4 Treasury Management 2017/18

There are no options for members to consider at this stage since past performance is being reported. Treasury Management is an important Council function since it deals with large value money transactions. The potential risk in this area is very high, however the Council has in place sound systems of financial control to minimise these risks. These controls are reviewed on an annual basis in order to provide the assurance that risk is being minimised. Additionally, by monitoring the Prudential Indicators, this also serves to minimise the risk in this area.

4.0 RECOMMENDATIONS that:

- (a) the final outturn of revenue and capital spending for 2017/18 be approved;**
- (b) the capital financing proposals as set out in Appendix C, that will be passed to the external auditors as part of the 2017/18 Statement of Accounts, be approved;**
- (c) the net variations of £6.316m not spent in 2017/18 on the Capital Programme, be re-profiled and carried forward into 2018/19;**

- (d) the movement in Provisions and Impaired Estimates on Debtors be approved;**
- (e) the creations of the new reserves, as outlined in paragraph 2.20 to the report, be approved;**
- (f) the individual contributions to, and withdrawals from, the revenue and capital Usable Reserves be approved;**
- (g) the contents of the Pension Fund Actuary report and the proposed assumptions to be used in the IAS19 pensions report for inclusion in the 2017/18 Statement of Accounts be approved;**
- (h) the Policy & Finance Committee receives the Annual Report on Treasury Management Activity and comments as appropriate for referral onto the Council for information, as required by the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management; and**
- (i) the Committee note that the Treasury Management activities are consistent with the objectives identified in the Treasury Management Strategy for 2017/18.**

Reasons for Recommendations

To approve the Financial Outturn for the Council for the 2017/18 financial year.

Background Papers

Statement of Accounts files & working papers 2017/18

Capital Finance Accounts 2017/18 files

Housing Revenue Accounts 2017/18 files

Treasury Management Strategy and 2017/18 files

Nick Wilson

Business Manager – Financial Services