

POLICY & FINANCE COMMITTEE

27 JUNE 2019

FINANCIAL OUTTURN REPORT TO 31 MARCH 2019

1.0 Purpose of Report

1.1 To present to Members the 2018/19 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 2018/19.

1.4 To seek Committee approval for the proposed capital programme.

1.5 To seek Committee approval for the 2018/19 carry forwards into 2019/20.

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 2018/19 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 2018/19

2.1 The accounts show an under spend of £0.323m on service budgets, with a total underspend variance of £1.957m shown as follows:-

	Budget £'m	Outturn £'m	Variance £'m
Economic Development	1.484	1.466	(0.018)
Homes & Communities	2.629	2.626	(0.003)
Leisure & Environment	6.281	6.095	(0.186)
Policy & Finance	4.868	4.752	(0.116)
Net Cost of Services	15.262	14.939	(0.323)
Other Operating Expenditure	3.744	3.720	(0.024)
Finance & Investment Inc & Exp	1.448	1.207	(0.241)
Taxation & Non Specific Grant Inc	(21.611)	(22.980)	(1.369)
Net Cost of Council Expenditure	(1.157)	(3.114)	(1.957)
Transfer to/-from Unusable Reserves	(136)	(261)	(125)
Transfer to/-from Usable Reserves	1,530	3,612	2,082
Transfer to/-from General Reserves	(237)	(237)	0

2.2 The actual outturn for the year (the 'Outturn' column in the table above) is a net transfer from the General Fund Reserve of £0.237m, which decreases the balance from £1.737m at 1 April 2018 to £1.500m at 31 March 2019. This is in accordance with the Medium Term Financial Plan approved on 7th March 2019.

2.3 The table above shows that actual transfers to Usable and General Reserves totalled **£3.375m**. This is broken down as follows:-

- Net Cost of Services £0.323m
- Additional Investment Interest £0.221m
- Business Rates Pool Unbudgeted Income £1.419m
- Additional Grant Income £0.046m
- Budgeted Movements in Reserves £1.925m
- Purchase of Buttermarket from Reserves **(£0.559m)**

2.4 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 favourable variances have not been achieved through reductions in service delivery. The level of underspending on Service Budgets managed by the Business Managers of £0.323m represents 2.12% 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.

Carry Forwards

2.5 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, £0.343m has been approved, by the s151 Officer, to be carried forward into 2019/20.

2.6 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 2018/19

- 2.7 With reference to the 'Variance' column in the table below, the accounts show an under spend variance against the approved budget of (£0.501m) for the HRA as follows:

	Budget £'m	Outturn £'m	Variance £'m
NSH Management Fee	8.725	8.653	(0.072)
Council Managed Expenditure	19.932	19.977	0.045
Income	(22.880)	(23.144)	(0.264)
Net Cost of HRA Services	5.777	5.486	(0.291)
Other Adjustments	2.078	1.868	(0.210)
(Surplus)/Deficit on HRA Services	7.855	7.354	(0.501)
Movements in Reserves			
Transfer to/from Usable Reserves	2.027	2.026	(0.001)
Transfer to/from Unusable Reserves	(17.854)	(17.812)	0.042
Transfer to Major Repairs Reserve	7.972	8.432	0.460
Total	0	0	0

- 2.8 A more detailed commentary of the variances is provided at **Appendix B**.
- 2.9 The actual outturn for the year (the 'Outturn' column in the table above) is a net transfer to the Major Repairs Reserve of (£8.432m), which increases the Reserve from that budgeted by £0.460m to £10.103m. The prudent level of reserve set on the HRA is still £2m.

Overview of Capital Outturn 2018/19

- 2.10 Policy and Finance Committee approves all variations to the Capital Programme and the revised budget of £26.425m was approved by Policy and Finance at the 21st February 2019 meeting.
- 2.11 In summary, the accounts show lower levels of expenditure of (£19.574m) or 26% 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	9.294	19.857	3.332	32.483
Variations to Programme approved in Year on 21 February 2019	(4.737)	(0.858)	(0.463)	(6.058)
Revised Programme	4.557	18.999	2.869	26.425
Outturn	3.640	13.439	2.495	19.574
Variance overspend/(underspend)	(0.917)	(5.560)	(0.374)	(6.851)

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

- 2.12 Capital spending in the year totalled £19.574m, 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	1.322	5.333	6.655
External Grants & Contributions	2.539	4.036	6.575
Capital Receipts	1.402	0.252	1.654
Revenue Contributions	0.813	3.877	4.690
Total	6.076	13.498	19.574

- 2.13 The pace of delivery on the Capital Programme has been maintained during the year, resulting in an achievement of 74% 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 £5.614m 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

- 2.14 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 1.4.18 £m	Movement in Year £m	Actual Balance 31.3.19 £m
General Fund - Provisions			
Provision for Appeals – NNDR settled within 12 months	(1.524)	0.067	(1.457)
Provision for Appeals – NNDR settled after 12 months	(1.327)	(0.621)	(1.948)
Total:	(2.851)	(0.554)	(3.405)

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 £0.860m was charged against the provision in relation to settled claims, of which 40% is applicable to NSDC.

2.15 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 £3.870m 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 Governments 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 Council’s, the Government made an allowance of 4.7% within the NNDR multiplier to compensate Council’s for the potential loss in Business Rates. Analyse Local have used their knowledge and understanding from a national perspective to estimate the total liability for the 2017 list which amounts to £4.642m. This gives a total provision at Collection Fund level of £8.512m of which this Council recognises 40% (£3.405m) due to its share of the overall NNDR income.

Impaired Estimates on Debtors

2.16 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 1.4.18 £m	Movement in Year £m	Actual Balance 31.3.19 £m
General Fund - Impaired Estimates on Debtors			
Sundry Debts	(0.463)	0.146	(0.317)
Council Tax Debts	(0.159)	(0.021)	(0.180)
Business Rates Debts	(0.190)	(0.025)	(0.215)
Total:	(0.812)	0.100	(0.712)
HRA - Impaired Estimates on Debtors			
Sundry Debts	(0)	(0.285)	(0.285)
Former Tenants	(0.207)	(0.035)	(0.242)
Current Tenants	(0.087)	(0.035)	(0.122)
Total:	(0.294)	(0.355)	(0.649)

Usable Capital Reserves

2.17 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.

2.18 Capital reserves are used to fund the approved capital programme within year, and the position as at 31 March 2019 is as follows:

Description	Balance B/Fwd 1.4.18 £m	Cont'n in Year £m	Use in Year £m	Actual Balance 31.3.19 £m	Committed to future Projects
Capital - General Fund					
Usable Capital Receipts	2.912	0.528	1.402	2.038	1.891
Capital Grants Unapplied	4.565	2.200	0.006	6.759	6.759
Capital - HRA					
Usable Capital Receipts - HRA	3.483	0.396	0.051	3.828	3.828
Usable Capital Receipts - RTB's	1.236	0.838	0.201	1.873	1.873
Capital Grants Unapplied	0.858	0.000	0.626	0.232	0.232
Major Repairs Reserve (MRR)*	6.572	8.433	4.898	10.107	10.107
Total:	19.626	12.395	7.184	24.837	24.690

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

Usable Revenue Reserves

2.19 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	(220,324)	70,000	0	(150,324)
Insurance Fund	(398,456)	61,823	0	(336,633)
Repairs And Renewals Fund	(2,411,187)	602,025	(571,066)	(2,380,228)
Land Charges	0	0	0	0
Building Control Surplus	7,077	0	(22,310)	(15,233)
Museum Purchases Fund	(11,414)	2,854	(2,854)	(11,414)
Training Provision	(152,182)	33,924	(33,924)	(152,182)
Community Safety Fund	(264,256)	264,256	(193,807)	(193,807)
Restructuring And Pay	(100,000)	0	0	(100,000)
Court Costs	(59,769)	4,012	(4,012)	(59,769)
Change/Capital Fund	(9,045,375)	894,898	(4,596,023)	(12,746,500)
Planning Costs Fund	(270,145)	135,145	(66,140)	(201,140)
Unlawful Occupation Of Land	(9,250)	9,250	(9,250)	(9,250)
Fly Tipping Fund	(100,000)	50,000	(5,000)	(55,000)
Homelessness Fund	(327,724)	36,846	(165,003)	(455,881)
Revenue Grants Unapplied	(185,230)	176,809	(283,688)	(292,109)
Fuel And Energy Reserve	(70,142)	6,440	(6,440)	(70,142)
Refuse Bin Purchase	(15,000)	0	0	(15,000)

Energy & Home Support Reserve	(116,580)	22,778	(27,778)	(121,580)
Growth And Prosperity Fund	(1,799,909)	1,404,653	(118,200)	(513,456)
WHOP Reserve	(110,849)	55,849	0	(55,000)
Emergency Planning Reserve	(50,000)	0	0	(50,000)
Other Earmarked Reserves	(25,774)	23,410	(23,410)	(25,774)
CSG/Enforcement Reserve	(0)	55,687	(150,687)	(95,000)
Management Carry Forwards	(224,268)	224,248	(343,424)	(343,444)
Development Company	(4,000,000)	0	0	(4,000,000)
Flood Defence Reserve	(0)	0	(250,000)	(250,000)
MTFP Reserve	(0)	0	(1,085,000)	(1,085,000)
Capital Financing Provision	(1,321,307)	210,235	0	(1,111,072)
Mansfield Crematorium	(140,215)	769	0	(139,446)
Gen Fund Bal Bfwd	(1,736,863)	236,863	0	(1,500,000)
Total General Fund	(23,251,032)	4,582,776	(7,958,016)	(26,626,272)
Revenue - HRA				
HRA - Working Balance	(2,000,000)	0	0	(2,000,000)
Total HRA	(2,000,000)	0	0	(2,000,000)

2.20 During the year three new reserves have been set up:

- The CSG/Enforcement Reserve £0.100m – This reserve was created during the budget setting process to fund activity in relation to the Cleaner, Safer and Greener agenda. It has contributed towards the days of action that have been held across the district.
- Flood Defence Reserve £0.250m – This reserve was created during the budget process to fund flood defence schemes across the district.
- MTFP Reserve £1.085m – This reserve was created in relation to the MTFP that was approved at Council 7 March 2019. The MTFP identified a funding gap of £0.880m during 2020/21 for which funding was to be set aside in order to contribute to building a balanced budget. Also identified through the budget monitoring process was a reduction in funding in relation to business rates income from renewable energy, for which 100% of the funding is retained by NSDC. This amounted to £0.205m, which will be a shortfall in funding during 2019/20 due to the accounting requirements for collection fund accounting. Hence this money has been set aside in order to fund the shortfall during 2019/20.

The Collection Fund 2018/19

2.21 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.

2.22 The in-year surplus on the Council Tax account was £0.202m, which increased the overall balance from a surplus of £2.747m at 1 April 2018 to a surplus of £2.949m at 31 March 2019.

2.23 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 £2.949m that relates to Newark & Sherwood District Council as at 31 March 2019 is £0.363m.

- 2.24 During the year, the Business Rates collection fund has swung from a deficit as at 1 April 2018 of £0.756m to a surplus of £1.652m. There have been several large changes in the rating list during the current financial year, which has increased the rateable value of the rating list by almost £1.9m rateable value. The Council's external consultants advised that due to various building works on properties within the district £1,059,700 rateable value should be billed for, together with new properties amounting to £831,050 in rateable value.
- 2.25 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 2019 is £0.660m.

Pensions

- 2.26 The details regarding the Council's share of the Nottinghamshire County Council Pension Fund are provided for Members consideration at **Appendix E**.
- 2.27 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 2018/19. For this reason, the Accounts & Audit Committee received and approved these assumptions at its meeting on 24 April 2019.

The Balance Sheet at 31 March 2019

- 2.28 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:
- 2.29 The significant movements on the Balance Sheet that are worthy of note are:
- Property, Plant & Equipment increased by £6.308m which relates in the main to in year Capital expenditure amounting to £17.039m, other movements related to revaluation movements, disposals and depreciation.
 - The Pension liability, excluding the Council's portion of Mansfield Crematorium, decreased by £5.154m from £68.836m to £63.682m culminating mainly from a change in financial and demographic assumptions from 31st March 2018.
 - Short Term Debtors has decreased from £12.190m to £7.987m (£4.203m) mainly relating to an invoice to Notts County Council for their contribution to Gladstone House (£3.200m) which was settled during 2018/19 but raised in 2017/18.
 - Cash and Cash Equivalents have increased by £17.308m throughout the year to £32.538m which relates to the timing difference on receipts being received in the cash flow to the occurrence of the expenditure.

Treasury Management Outturn Report

- 2.30 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.
- 2.31 The report confirms that the Council complied with its Prudential Indicators for the financial year 2018/19, as set within the Treasury Management Strategy approved at Council on 8 March 2018.

3.0 Options, Risks and Reasons for Recommendations

3.1 Statement of Accounts 2018/19

The unaudited Statement of Accounts for 2018/19 were presented to an informal meeting of the Accounts and Audit Committee on 5 June 2019 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 2018/19

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 2019/20 budgets, and early action is essential to mitigate further impacts on General Fund balances.

3.3 Capital Expenditure and Financing 2018/19

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 2019/20.

3.4 Treasury Management 2018/19

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 2018/19 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 2018/19 Statement of Accounts, be approved;**

- (c) the net variations of £5.614m not spent in 2018/19 on the Capital Programme, be re-profiled and carried forward into 2019/20;**
- (d) the movement in Provisions and Impaired Estimates on Debtors be approved;**
- (e) the creations of the new reserves, as outlined in paragraph 2.19 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 2018/19 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 2018/19.**

Reasons for Recommendations

To approve the Financial Outturn for the Council for the 2018/19 financial year.

Background Papers

Statement of Accounts files & working papers 2018/19

Capital Finance Accounts 2018/19 files

Housing Revenue Accounts 2018/19 files

Treasury Management Strategy and 2018/19 files

For further information please contact Nick Wilson - Business Manager – Financial Services on Ext 5317.

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