

## Cabinet

9<sup>th</sup> July 2019

Report of:

Portfolio Holder Corporate  
Finance and Resources

### GENERAL FUND REVENUE BUDGET 2018-19 PROVISIONAL YEAR END

1.0 Corporate Priority:	Decision Type:
1.1 OG3 Becoming a more agile and commercial Council; securing our financial future	Non Key Decision

2.0 Summary:
2.1 To provide Members with information on the provisional year end position subject to external audit approval for 2018/19 and to provide information on the implications for the Council's balances and reserves.

3.0 Recommendations
3.1 That Cabinet consider and note the provisional year end position, variations to the 2018/19 estimated year end position and the resultant effect on the Council's balances and reserves.

4.0 Reason for Recommendation:
4.1 It is important Cabinet are aware of the Council's financial position in order to ensure they can make informed decisions that are affordable and financially sustainable for the Council.

5.0 Alternate Options Considered
5.1 No alternatives were considered for this report as a decision is not required.

6.0 Report Detail
6.1 The following table compares the provisional year end position for 2018/19, subject to audit, for all General Fund and Special Expenses to the approved budget (including carry forwards and supplementary Estimates) as agreed by members during 2018/19. For members further information a comparison has also been made to show performance against the original budget set in February 2018. Attached at Appendix A is a summary of budget holder performance comparing the provisional year end position to the approved budget (the original budget as adjusted by supplementary estimates, virements and budget reductions authorised during the financial year) but for controllable budgets only i.e. excludes support service recharges, capital charges and other internal recharges between services. The approved budget is the authorised budget for

spending purposes. There are no areas of overspend in budget holders control which should be considered for carry forward to form the first call on resources in the new financial year.

### General Expenses

	Original Budget	Estimated Year End	Provisional Year End Position	Variance to Original (Underspent) / overspend	Variance to Estimated Year End (Underspent) / overspend
	£'000	£'000	£'000	£'000	£'000
Net Expenditure	5,016	5,530	<b>5,251</b>	235	(279)
<b>Funding</b>					
Business Rates	(1,298)	(1,216)	<b>(1,258)</b>	40	(42)
NNDR Collection Fund	(142)	(142)	<b>(142)</b>	0	0
RSG	(47)	(47)	<b>(47)</b>	0	0
Council Tax Collection Fund	(17)	(17)	<b>(17)</b>	0	0
New Homes Bonus	(257)	(257)	<b>(257)</b>	0	0
Council Tax	(3,100)	(3,100)	<b>(3,100)</b>	0	0
<b>Total funding</b>	<b>(4,861)</b>	<b>(4,779)</b>	<b>(4,821)</b>	<b>40</b>	<b>(42)</b>
<b>Surplus (-) / Deficit for year</b>	155	751	<b>430</b>	275	(321)
<b>Funded by</b>					
C/fwd Reserve	0	(220)	<b>(220)</b>	(220)	0
Spending Pressure Reserve	(155)	(185)	<b>(155)</b>	0	<b>30</b>
Corporate Priorities Reserve	0	(346)	<b>55</b>	55	<b>(291)</b>

### Special Expenses – Melton Mowbray

	Original Budget	Estimated Year End	Provisional Year End Position	Variance to Original	Variance to Estimated Year End
	£'000	£'000	£'000	£'000	£'000
Net Cost of Services	626	635	<b>567</b>	(59)	(68)
Non Service Related and funding	(621)	(628)	<b>(602)</b>	19	26
<b>Surplus (-)/Deficit for year and reserve movement</b>	<b>5</b>	<b>7</b>	<b>(35)</b>	<b>40</b>	<b>42</b>

		Original Budget	Estimated Year End	Provisional Year End Position	Variance to Original	Variance to Estimated Year End
		£'000	£'000	£'000	£'000	£'000
<b>Special (Sproxton) Net Surplus / Deficit</b>		0.479	(0.021)	(0.291)	(0.770)	(0.270)
<b>Special (Frisby) Net Surplus / Deficit</b>		0.015	0.015	(0.368)	(0.382)	(0.382)

6.2 The net position against the original budget position for each of the main funds is therefore as follows:

- **General Fund General Expenses** – overspend £54,702 (net additional funding from Corporate Priorities Reserve)
  - **Special Expenses (Melton Mowbray)** – increase in the transfer to reserve after surplus / deficit £42,543

The net revenue expenditure in regard of the General Fund for 2018/19 prior to council tax and grant funding was originally estimated at £5.016m, which was subsequently updated to an estimated year end position of £5.530m. The increase for the estimates year end position took into account allowing for budgets brought forward from the previous financial year (£220k), requests for additional funding to support initiatives identified in year (£282k) as well as a general forecast overspend in some areas (£63k). The actual net expenditure for the year was £5.251m, an increase over the original estimate plus approved carry forwards of from 2017/18 £15k. After taking into account the allocation to reserves and other adjustments the deficit for the year is £210k compared to an original £155k deficit. This results in an additional draw on the Corporate Priorities Reserves of £55k when compared to the original estimate. However what this does show is that the increases to the original budget by way of supplementary estimates and the forecast for the year as reported to members at the budget setting meeting in February 2019 were pessimistic and that through flexible budget management it was possible to meet these additional demands in some service areas from savings elsewhere.

6.3 As part of the Council's flexible budget monitoring processes budgets are updated throughout the year to take into account supplementary estimates, virements and budget reductions creating an approved budget for budget holders to work within. As part of the budget monitoring and review process all budget holders have been requested to provide an explanation of significant variations against their approved budget on individual services. Brief comments summarising the reasons for any budget variations for items which are within the budget holder's control have been included against the relevant service line in Appendix A. Only those in excess of £10k have been commented on. There are some key variances we would draw members attention which are outlined in paragraph 6.5.

6.4 Also, included for information is the level of carry forwards previously approved at the Corporate Committee meeting of 10 April 2019 which originally totalled £151,883 for general expenses and £6,880 for Special Expenses. Now the final accounts have been completed and actual underspends are known there has been a minor reduction on the carry forward for the general fund to £148,883.  
Key Variances.

6.5 **GENERAL FUND**

Underspends

- **Waste Management** – Following the procurement of a new waste contract a number of savings have been achieved through the main contract plus additional income through bin sales, replacement bins and bulky waste. These have been partly off-set through additional costs relating to higher contamination rates and recycling values being depressed (£75k).
- **Benefits** – There has been an underspend on rent rebates (£36k) due to the level of subsidy being higher than budgeted due to an increase in recovery of benefit overpayments. There has also been an underspend on rent allowances which is also due to the overpayment recovery being higher than anticipated (£96k).
- **Business Rates** – Additional funds were received from Government for section 31 grants (£60k) partly offset by additional spend of £22k on revaluation analysis which will generate additional business rates income next year. The overall position on the business rates compared to budget is partially smoothed out over the financial years through the use of the equalisation reserve.
- **Fraud Case** – Following a successful legal process monies have been received through the proceeds of crime act (£70k).
- **Reduced costs** – In general there have been a number of savings across services such as the Corporate and Democratic function on a number of activities (£22k), Council Tax Collection costs being lower than expected (£37k) and savings on the Supporting Leicestershire families programme within the Community Safety function (£19k) after allowing for the transfer of the service to LCC.
- **Staffing** – due to vacancies and staffing changes across the Council during the year a number of services have seen an underspend including; Customer Services (£62k), Corporate Improvement Team (£18k), and Communications including an underspend relating to professional fees (£25k). In addition to this Environmental Maintenance (£29k), Local Plans (£11k) and Economic Development (£11k) also underspent on salaries. Some of these have been requested to be carried forward such as funds to support the development of a Housing Company and a review of Planning services (£56k) and towards the Revenues and Benefits integration project (£25k). Some of this has been partly offset by additional redundancy costs which haven't been able to be met from salary savings (£14k) but were approved to be funded from reserves.
- **Investment Income** - income from interest received was higher than anticipated as a result of greater returns achieved from Treasury Management activities (£53k)

In addition to the above there are a number of other service underspends where approval has been given to carry forward the budget into 2019-20.

## Overspends

- **Wheels to Work** – Due to the decision to cease this scheme there are a number of bad debt write-offs required over and above the provision already established (£17k).
- **Public Conveniences Project** – due to delays with the construction and operation of the new toilets additional staffing and redundancy costs were incurred (£77k)
- **Bad Debt Provision** – Following a review of the previous bad debt provision calculations following recommendation from external audit a more prudent approach has been taken which has resulted in an increase in the provision required (£70k).
- **Income** – the council has seen a reduction of some key income streams such as:
- Planning income is down due to the lower than anticipated number of applications received due to the uncertainty around the UK exiting the EU (£28k).
- Cattle Market commission levels are lower than budgeted across a number of areas within the market operations such as animal and poultry auctions due to weather issues which affected the numbers brought to market (£60k)
- The number of applications received through the Building Control service was down during the year resulting in reduced income (£58k).

### 6.6 Additional costs

Along with the overspends outlined above there have been some additional costs with the transition to an in-house legal service including temporary agency fees whilst the permanent structure is put in place (£35k) and agency fees to support additional inspection work within the Environmental Health Service (£12K) . Additional repairs works were required on King Street due to the listed building requirements (£29k) and the industrial Units for drainage works and fire risk assessments which were carried out (£19k).

### 6.7 Overall despite the year end position being an underspend against approved budgets and the estimated year end positon it does show that the council through its use of flexible budget management could look to fund more in year pressures from saving elsewhere. Based on the final figures for 2018/19 this would have resulted in more accurate forecasting. The council will look to how procedures can be improved to achieve this aim.

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## 6.8 RESERVES

The impact on reserves and balances of the provisional year end position is summarised in the tables below:

<b>Working Balances</b>	General Fund	Special Expenses
	£	£
Balance as at 31 <sup>st</sup> March 2018	640,000	50,000
Contribution from /to (-) Revenue Account	0	0
<b>Provisional Balance @ 31<sup>st</sup> March 2019</b>	<b>640,000</b>	<b>50,000</b>
<b>Less:</b>		
Budgeted changes to Reserves 2019/20	0	0
<b>Revised Estimated Position @ 31 March 2020</b>	<b>640,000</b>	<b>50,000</b>

<b>Specific Reserves</b>	Corporate Priorities Reserve	Spending Pressure Reserve	Special Expense Reserve
	£	£	£
Balance as at 31 <sup>st</sup> March 2018	1,431,976	211,514	252,406
Contribution from /to (-) Revenue Account	(54,702)	185,650	35,111
Contribution to the carry forward reserve	(148,880)	0	(510)
<b>Provisional Balance @ 31<sup>st</sup> March 2019</b>	<b>1,228,394</b>	<b>25,864</b>	<b>287,007</b>
<b>Less:</b>			
Budgeted changes to Reserves 2019/20	(429,158)	(25,864)	(9,910)
<b>Revised Estimated Position @ 31<sup>st</sup> March 2020</b>	<b>799,236</b>	<b>0</b>	<b>296,917</b>

- 6.9 As a result of the above, the balance on the Corporate Priorities Reserve is estimated to be £210,913 more as approved by members during 2018/19 which had estimated the balance to be £588,323. The difference on the Reserve is a result of a much lower use of reserves to fund supplementary estimates and redundancy payments due to the Council being proactive in managing its finances through utilising underspends across the Council to fund cost pressures rather than relying on the approved use of reserves. This links to the earlier comment that more robust forecasting would identify this opportunity earlier and

reduce the need to request funding from the reserves. To date during 2019/20 no supplementary estimates have been approved.

- 6.10 For Special Expenses (MM) as a result of the figures in the table above, the balance on the Special Expenses Reserve is estimated to be £42,033 higher than that reported to the Council in February 2019 (£235,064). The majority of the difference on the Reserve can be accounted for as a result of the underspend during the year. As highlighted above more robust forecasting would have highlighted this earlier.

6.11 **STATEMENT OF ACCOUNTS**

The Accounts and Audit Regulations 2015 (the Regulations) require a Statement of Accounts to be produced and approved by an appropriate committee which for Melton falls under the remit of the Audit and Standards Committee. For the financial year 2018-19 this approval must be by 31 July 2019. It is also a requirement of the regulations that the unaudited accounts have to be signed off by the Section 151 Officer and published by 31 May 2019. These draft accounts have been made available for public inspection for a 30 day period during June. The audited accounts must be published by 31 July 2019. The draft statement of accounts are being presented to the Audit and Standards committee at their meeting on the 30 July 2019. The main points from statements which may be of interest to Cabinet members are summarised below.

6.12 **Debtors and Creditors**

The table below illustrates that there is an increased excess of creditors at 31 March 2019 (money owed by the Council) over debtors (money owed to the Council). For a healthy cash flow position this is the ideal scenario.

<b>Analysis of Balance Sheet</b>	<b>31-Mar-18 £'000</b>	<b>31-Mar-19 £'000</b>
Creditors & Provisions	3,826	4,525
Less:		
Short Term Debtors	2,637	2,936
Excess of Creditors over Debtors	1,189	1,589

The main reasons for the change in both the short term creditors figure and the short term debtors figure is explained below:

- The Business Rate Retention Scheme preceptor creditor balances were increased by £140k, due to more income being collected than the previous year and an increased levy amount payable.
- The provision relating to the Council's share of outstanding business rates appeals has increased by £171k due to an audit requirement to include 2 years' worth of appeals rather than 1 in the previous year, and the provision for redundancies approved but not yet paid has increased by £47k.
- There is a general increase in the figure for capital creditors of £279k and an increase in the sundry creditors (including accrued creditors) of £41k. The many transactions that make up these figures include all the Council's miscellaneous creditors. There is also an increase in accrued debtors of £429k.
- The provision for doubtful sundry debts was increased by £116k, of which

£69k can be linked to an updated and more realistic calculation on the existing arrears based on the harder to collect long term debt. The provision for arrears on housing debt has reduced by £137k due to an updated calculation on the provision for former tenant arrears.

- The VAT debtor has reduced by £108k due to lower amounts of invoices processed in period 12 with some capital and revenue invoices being held awaiting evidence.
- The remainder is a mixture of smaller movements on other debtor and creditor balances.

### **6.13 Cash Resources**

The following table shows that where there have been cash resources available that these have been invested, either internally or externally, in order to both maximise the Council's income from interest receipts or reduce interest paid:

<b>Analysis of Balance Sheet</b>	<b>31-Mar-18 £'000</b>	<b>31-Mar-19 £'000</b>
Cash Resources:		
- Useable Capital Receipts & Contributions	5,126	5,313
- Earmarked Reserves	11,350	11,777
- Balances	2,359	2,590
Funds Available for Investment	18,835	19,680
Excess of Creditors over Debtors	1,189	1,589
Resources / Cash Available for Investment	20,024	21,269
Cash & Cash Equivalents	18,096	18,876
Property Investment Fund	1,936	1,966
Excess (-) / Deficit of Investments over Resources	-8	-427

## **7.0 Consultation and Feedback (including Scrutiny Committee)**

- 7.1 The Statement of Accounts (subject to audit) which includes the revenue outturn position has been advertised from 1<sup>st</sup> June to 12<sup>th</sup> July 2019 as available for public inspection on the website and the auditors available to answer questions.

## **8.0 Next Steps**

- 8.1 The provisional outturn as part of the draft Statement of Accounts will be considered at the Audit and Standards Committee at its meeting on the 30<sup>th</sup> July 2019.
- 8.2 External Audit will be undertaking their independent assessment of the Council's financial statement position and accounts production as part of the statutory duties through the audit process taking place during June 2019.

## **9.0 Financial Implications**

- 9.1 In summary, taking into account carry forwards, the 2018/19 end of year position has resulted in an increase to the balance on the corporate priorities reserve of £210k against the estimated year end position based on members approvals during 2018/19 and £42k higher for Special Expenses.

- 9.2 The provisional year end position has shown that with the Council's flexible budget management processes there is an opportunity to fund in year cost pressures in some service areas from underspends elsewhere as opposed to seeking supplementary estimates from members. With the financially challenging times the council faces this would relieve the pressure on the council's reserves.
- 9.3 As set out earlier there continues to be a need to focus on budget management and improved forecasting as whilst overall (excluding carry forward requests) there has been an underspend there are still a number of over and underspends across the budget headings.
- 9.4 The current economic climate continues to prove challenging for the Council in terms of financial management and is currently in a period of great uncertainty due to the funding review. There is uncertainty over the Business Rate Retention Scheme and outcome of the Fairer Funding Review. The Council has developed a Budget Management Strategy to help meet the future budget pressures with the aim of these savings and income generation initiatives to mitigate any loss in grant funding. This will be a challenging target and requires a Council wide approach in order to achieve an ongoing financially sustainable Medium Term Financial Strategy.

#### **10.0 Legal and Governance Implications:**

- 10.1 There are no specific legal implications arising from this report.

#### **11.0 Equality and Safeguarding Implications:**

- 11.1 Equalities and Safeguarding issues were addressed in setting the current year's budget. There are no further equalities issues arising from this report.

#### **12.0 Community Safety Implications:**

- 12.1 Community safety issues were addressed in setting the current year's budget. There are no further community safety issues arising from this report

#### **13.0 Other Implications(HR, Data Protection, Climate Change, etc)**

- 13.1 No other implications have been identified

#### **14.0 Risk & Mitigation:**

- 14.1 The Council's Chief Financial Officer has a duty under the Local Government Act 2003 in setting the budget to comment on the robustness of the estimates and the adequacy of the reserves. This requires that effective budget monitoring procedures are set in place to monitor expenditure and income against the budget and careful consideration is given to determining the level of reserves.
- 14.2 It is still early in the 2019/20 financial year for budget monitoring and therefore it isn't clear whether the under and overspends in 2018/19 have continued including any downward trends on significant income budgets. As usual the council will need to monitor any trends as they are still subject to sensitivity. Whilst investment returns have been positive for the Council over recent years, with interest rates expected to remain low during the forthcoming year, it is unlikely there will be any significant returns over and above the levels achieved in 2018/19.

14.3 There are a number of financial pressures and uncertainties which could affect the estimates particularly in future years and collectively these indicate significant financial pressure on the council's resources. The forward projections have been subjected to sensitivity analysis in light of the potential risks associated with particular items and assumptions. These do indicate potential wide fluctuations in any year which could see the likely surplus/deficit being substantially different to that expected. This emphasises both the high level and impact of the risks that face the Council's finances in the future. In recognition of the significance of these risks there is a risk contained within the Council's corporate risk register relating to finance as referred to in the risk table below. As a corporate risk an action plan is in place and is actively managed.

14.4 Offset against the risk below are the level of reserves and balances the Council holds as referred to in para 6.7. Whilst the Council does have a good level of reserves and balances this should be taken in the context of the future significant cuts that could continue. Such reserves could be used, should the need arise, to support the revenue budget in any year to mitigate the impact of any deficit whilst more long term sustainable plans are developed to reduce net expenditure. This approach was taken for 2018/19 with the use of the Spending Pressure Reserve to balance the budget.

14.5 <b>L I K E L I H O O D</b>	<b>A</b>	<b>Very High</b>								
	<b>B</b>	<b>High</b>			<b>1</b>					
	<b>C</b>	<b>Significant</b>								
	<b>D</b>	<b>Low</b>								
	<b>E</b>	<b>Very Low</b>								
	<b>F</b>	<b>Almost Impossible</b>								
			<b>Negligible 1</b>	<b>Marginal 2</b>	<b>Critical 3</b>	<b>Catastrophic 4</b>				
<b>IMPACT</b>										
<table border="1"> <thead> <tr> <th><b>Risk No</b></th><th><b>Risk Description</b></th></tr> </thead> <tbody> <tr> <td><b>1</b></td><td>Risk of failing to secure financial stability in the medium term</td></tr> </tbody> </table>							<b>Risk No</b>	<b>Risk Description</b>	<b>1</b>	Risk of failing to secure financial stability in the medium term
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### Background Papers:

2018/19 General Fund Budget and MTFS

**Appendices**

Appendix 1 – Provisional Year End Position 2018-19

**Report Timeline:**

**Director Approval : 4.6.19**

**Chief Finance Officer Sign Off : 4.6.19**

**Monitoring Officer Sign Off:**

**Chief Executive Sign Off: 28.6.19**

**Exempt Reports**

Not applicable

**Date of Review to make public**

Not applicable as public document

**Report Author**

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