



Cabinet

15 July 2020

Report of: Councillor Ronnie de Burle -
Portfolio Holder for Corporate
Finance and Resources

General Fund Revenue Account 2019-20 Provisional Year End Position

Corporate Priority:	OG3 Becoming a more agile & commercial Council; securing our financial future
Relevant Ward Member(s):	
Date of consultation with Ward Member(s):	
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

- 1.1 To provide Members with information on the provisional year end for the General Fund accounts and to provide information on the implications on the Council's balances and reserve. After taking into account the allocation to reserves and other adjustments the deficit for the year to be funded from the Corporate Priorities Reserve is £8k an underspend of £126k. With regard to special Expenses Melton Mowbray the underspend is £81k. The final position is still subject to external audit approval for 2019-20.

2 Recommendations

- 2.1 That Cabinet:
Notes the provisional year end position, variations to the 2019-20 approved budget and the resultant effect on the Council's balances and reserves for the General Fund as set out below and in the attached paper.
- 2.2 Recommends to Council that £300k of the business rates equalisation reserve be allocated to support any unfunded Covid-19 expenditure.

3 Reason for Recommendations

- 3.1 It is important that Cabinet are aware of the financial position of the General Fund in order to ensure they can make informed decisions that are affordable and financially sustainable for the Council

4 Background

- 4.1 The following table compares the provisional year end position for 2019-20, 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 2019-20. For members further information a comparison has also been made to show performance against the original budget set in February 2019. Attached at Appendix A is a summary of budget holder performance comparing the provisional year end position to the approved budget 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 Fund

	Original Budget	Latest Approved Budget	Provisional Year End Position	Variance to Original (Underspend) / overspend	Variance to Latest approved (Underspend) / overspend
	£'000	£'000	£'000	£'000	£'000
Net Expenditure	4,906	5,105	5,213	307	108
Funding					
Business Rates	(1,273)	(1,273)	(1,507)	(234)	(234)
NNDR Collection Fund	47	47	47	0	0
Council Tax Collection Fund	15	15	15	0	0
New Homes Bonus	(327)	(327)	(327)	0	0
Council Tax	(3,244)	(3,244)	(3,244)	0	0
Total funding	(4,782)	(4,782)	(5,016)	(234)	(234)
Surplus (-) / Deficit for year	124	323	197	73	(126)
Funded by					
C/fwd Reserve	0	(148)	(148)	(148)	0
Spending Pressure Reserve	(26)	(26)	(26)	0	0
Regeneration and Innovation Reserve	0	(15)	(15)	(15)	0
Corporate Priorities Reserve	(98)	(134)	(8)	(91)	(126)

Special Expenses

	Original Budget	Latest Approved Budget	Provisional Year End Position	Variance to Original (Underspend) / overspend	Variance to Latest Approved (Underspend) / overspend
	£'000	£'000	£'000	£'000	£'000
Net Cost of services	626	650	578	(48)	(72)
Non service related expenditure	(636)	(636)	(645)	(9)	(9)
Surplus (-) / Deficit for year and reserve movement	(10)	14	(67)	(57)	(81)

*the net position on the closed Churchyards of Spoxton and Frisby are summarised in Appendix A

- 4.1 The net revenue expenditure in regard of the General Fund for 2019-20 prior to council tax and grant funding was originally estimated at £4.906m, which was subsequently updated to an approved budget of £5.105m. The increase took into account allowing for budgets brought forward from the previous financial year (£148k) and requests for additional funding to support initiatives identified in year (£51k). After taking into account the allocation to reserves and other adjustments the deficit for the year to be funded from the Corporate Priorities Reserve is £8k compared to the latest approved budget of £134k deficit, a reduction of £126k. This is mainly as a result of an overall underspend across the council as outlined in Appendix A and variations in support charges between the funds. Of the £126k reduction, £122k is being carried forward into 2020-21 resulting in a net reduction in the draw on reserves over that approved of £4k.
- 4.2 The net revenue expenditure in regard of the Special Expenses Melton Mowbray for 2019-20 was originally estimated at £626k, which was subsequently updated to an approved budget of £650k. The increase took into account allowing for budgets brought forward from the previous financial year (£7k) and requests for additional funding to support initiatives identified in year (£17k). After taking into account the allocation to reserves and other adjustments there was variance against the approved budget of £81k surplus of which £13k is being carried forward into 2020-21, resulting in a £68k increase on the Special Expenses Reserve over the approved budget.
- 4.3 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 3.6.
- 4.4 Also, included for information is the level of carry forwards previously approved by the Portfolio Holder for Corporate Finance and Resources which originally totalled £122,140 for general expenses and £13,200 for Special Expenses. Following the completion of final

accounts it can be confirmed the carry forward amounts remain the same and no alterations have been required for the final balances.

4.5 KEY VARIANCES

4.5.1 General Fund – Underspends

- **Waste Management** – Following the full year impact of the new waste contract a number of savings have been achieved through the main contract plus savings on bin purchases and income generation on replacement bins and bulky waste (£21k). There have also been savings on transportation costs for dealing with disposals including street sweepings (£28k).
- **Business Rates** – Income underspend due to Increased S31 Grant (covers reliefs granted) received based on final NNDR return to Government which has been partly offset by transfers to the business rates retention reserve. The remaining underspend is due to an accounting adjustments required following returns to government. This has been partly reduced by additional spend for RV analysis which will generate additional NDR income next year (£13.5k).
- **Information Technology** – There have been a number of savings with the ICT budget including, the deferral of implementation expenses & licencing costs and a series of major infrastructure improvements to 2020-21 as a result of a delay in implementation caused by interdependency on other projects, and in part by Covid-19 (£92k). The majority of this has been carried forward into 2020-21.
- **Bad debt Provision** – There has been a reduction on the bad debt provision in year across the sundry debt revenue stream which is due to a combination of two factors. The first being that there has been less debt raised across sundry debt as a whole. Therefore there hasn't been as much debt to collect across the year 2019-20 in comparison to 2018-19. The second is an increase in collection performance meaning that collection rates have improved in 2019-20 (95%) when compared to 2018-19 (93%). There is now a dedicated sundry debt resource in place and it is hoped to see this performance continue to improve. It is also intended to review the recovery processes as part of the new finance system implementation with the intention being to streamline the process if possible. Improved reporting is also hoped to be seen within this area to allow the any potential issues to be pinpointed linked to the recovery of any outstanding debts. We are in the early stages of mapping both the process and the reporting aspects out. There has been a circa £50k reduction on the provision as a whole including overpayment of housing benefit.
- **IEG4 Project** – There has been a delay in development of Website pending the IEG4 implementation resulting in a underspend of £18k on this project which is being carried forward into 2020-21. This has been partly offset by some additional training costs incurred resulting in a net underspend of £12k for the year.
- **Legal Services** – Income generated exceeded expectations due to use of consultancy support alongside savings generated from vacancies and a delay in the purchase of publications (£20k)
- **Building Control** – there has been a salary saving during the year following the deletion of one post which has been transferred into the Building Control Partnership alongside the costs of the partnership being lower than expected (£20K).
- **Income:** There has been some additional income generated in excess of budget predictions:
 - **Cattle Market** - Previous assumption around reduction in income has not materialised as performance was better than expected. In the last quarter live stock

sales exceeded the previous two years income, mainly attributable to a strong sale in sheep mainly due to 'market' conditions and improved sheep trading from Melton Mowbray (£23k).

- **Investment Income** - income from interest received was higher than anticipated as a result of greater returns achieved from Treasury Management activities (£55k).

4.5.2 General Fund – Overspends

- **Income:** the council has seen a reduction of some key income streams:
 - **Development Control** – Planning income has decreased this year with uncertainty throughout the year around the UK exiting the EU (£236k)
 - **Car Parks** - income was down throughout the year and impact of COVID-19 added to this further with £12k alone lost in the final few weeks of March (total shortfall was £27k for year)
- **Parkside** - Overspend on responsive repairs due to additional works required in year and utilities costs which are difficult to predict. Income targets for civic suite hire have not been met (£22k).
- **Corporate Repairs and Maintenance** - Overspend due to additional repair works required in year covering areas such as Council Buildings, Car Parks, Melton Country Park and Leisure Centres (£27k).

4.5.3 Special Expenses Melton Mowbray

- **Community Centres (£28k underspend)** - Professional Fees related to looking at development potential of Community Centres were not undertaken due to Covid-19. Also, additional income was received in year for all three centres used by Leicestershire County Council in 2019-20 whereas budget assumed closures.
- **Repairs and Maintenance (£13k underspend)** - Works that we due to take place have been moved into 2020-21 due to vacant post and will be undertaken in once resources are in place.

4.6 RESERVES

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

Working Balances	General Fund	Special Expenses
	£	£
Balance as at 31 st March 2019	640,000	50,000
Contribution from /to (-) Revenue Account	0	0
Provisional Balance @ 31st March 2020	640,000	50,000
Less:		
Budgeted changes to Reserves 2020-21	0	0
Revised Estimated Position @ 31 March 2021	640,000	50,000

Specific Reserves	Corporate Priorities Reserve	Spending Pressure Reserve	Special Expense Reserve
	£	£	£
Balance as at 31 st March 2019	1,200,394	25,864	293,667
Contribution from /to (-) Revenue Account	(7,560)	(25,864)	67,324
Contribution to the carry forward reserve	(122,140)	0	(13,200)
Provisional Balance @ 31st March 2020	1,070,694	0	347,791
Less:			
Budgeted changes to Reserves 2020-21	(215,570)	0	0
Supp Ests agreed in 2020-21	(40,000)	0	0
Revised Estimated Position @ 31st March 2021	815,124	0	347,791

- 4.6.1 As a result of the above, the balance on the Corporate Priorities Reserve is estimated to be £36,112 less than that approved by members during 2019/20 which had estimated the balance to be £851,236. The minor difference on the reserve is as a result of the underspend at the year-end (£4k) offset by two supplementary estimate for the new Election Management system (£15.5k) and Members Allowances approved (£24.5k) in 2020-21.
- 4.6.2 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 £68,254 higher than that reported to the Council in February 2020 (£279,537). 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.

5 Main Considerations

- 5.1 Considerations have been addressed in paragraph 3 to this report.

6 Options Considered

- 6.1 No other options considered as If the report was not provided councillors would not be aware of ongoing developments and therefore would not be able to represent their residents effectively.

7 Consultation

- 7.1 The statement of accounts (subject to audit) which includes the General Fund revenue out-turn position has been advertised from 1st July to 11th August 2020 as available for public inspection on the website and the auditors available to answer questions.

8 Next Steps – Implementation and Communication

- 8.1 The provisional out-turn as part of the draft statement of accounts will be considered by the Audit and Standards Committee at its meeting on the 29th September.
- 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 August 2020.

9 Financial Implications

- 9.1 In summary, taking into account carry forwards, the 2019-20 end of year position has resulted in an increase to the balance on the corporate priorities reserve of £4k against the approved budget based on approvals during 2019-20 and £68k higher for Special Expenses.
- 9.2 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 ongoing funding review and even more pressing, the impact of COVID-19. The council is monitoring closely the financial impact of COVID-19 in terms of both additional expenditure being incurred and income shortfalls. To date the extra funding provided by Government is unlikely to meet the full impact of this and without further government support the Council is likely to have to call on reserves to balance the 2020-21 budget. Latest estimates indicate a potential unfunded financial impact of between £865k and 1,347k. This would utilise all of the Corporate Prioritise Reserve and also a sizeable portion of the working balance meaning the council would be left with little financial resilience for any future financial pressures and limited resources to fund any non-recurring expenditure that could not be met from within the revenue budget. This would cause difficulties should the council need to identify on going savings in the future that require any initial investment to achieve these. Future losses are also likely to materialise in the future as a result of the difficulty in collecting business rates, council tax and any sundry debts. COVID-19 has also impacted on the uncertainty over the business rate retention scheme and outcome of the Fairer Funding Review which have both been pushed back. This will be a challenging target and requires a Council wide approach in order to achieve an ongoing financially sustainable Medium Term Financial Strategy. A further round of government funding has been announced with the detail awaited. Once this has been received and assessed the projections can be updated.
- 9.3 Further information regarding the draft Statement of Accounts and the Narrative Statement will be presented to the Audit and Standards Committee at its meeting on the 29th September. The Narrative Statement will provide more organisational oversight of the achievements in 2019-20, focus for the coming year and challenges that lie ahead including the impact and recovery phase of COVID-19.

- 9.3 Under the Local Government Act 1988 it is illegal for planned expenditure in the current or a future year to exceed budgeted resources and available reserves. As set out above all COVID-19 expenditure and income loss is being carefully monitored to ensure this is not the case. However as set out above current projections indicate the working balance is likely to be utilised should significant additional resources not be provided externally. This means the council is already projecting the likelihood of incurring expenditure below its minimum level of reserves. Due to the fluid nature of responding in such circumstances it is considered necessary to ensure there is as much flexibility as possible to continue to provide a robust service to the community at this time. The council has a business rates equalisation reserve which was established to help mitigate the financial impact of variations in business rates income that can arise both upwards and downwards over the years due to the nature of the business rates rendition scheme. In recent years this has increased and is at a level that is higher than in normal circumstances is required. As such it is being recommended that £300k of this reserve be allocated to offset the financial implications of the COVID crisis. It should be noted that one of the financial impacts of COVID over the medium term is likely to be a reduction in growth in business rates and also potentially a decline as businesses cease trading. This action whilst providing the necessary funding to support the COVID response and recovery will reduce the financial resilience of the authority to cope with any large reduction in business rates income in the future. However the decline in business rates income will be a national issue and one the government will need to consider when it assesses the financial settlement for 2021/21 and later years.

Financial Implications reviewed by: **Director for Corporate Services**

10 Legal and Governance Implications

- 10.1 There are no specific legal considerations associated with this report.

Legal Implications reviewed by: Director for Governance and Regulatory Services

11 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 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 Environmental and Climate Change Implications

- 13.1 No implications have been identified.

14 Other Implications (where significant)

- 14.1 No other implications have been identified.

15 Risk & Mitigation

- 15.1 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
- 15.2 It is still early in the 2020-21 financial year for budget monitoring but as outlined in para 8.2 with the impact of COVID-19 there is going to be a significant impact on balancing the budget with the likelihood of having to call on reserves. The Council is continuing to lobby for additional funding and have been working with the LGA to highlight the pressure the Council is under.
- 15.3 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.

Risk No	Risk Description	Likelihood	Impact	Risk
1	Risk of failing to secure financial stability in the medium term including managing the financial impact of COVID-19	High	Critical	High Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High			1	
	4 Significant				
	3 Low				
	2 Very Low				
	1 Almost impossible				

16 Background Papers

16.1 None

17 Appendices

17.1 Appendix 1 – General Fund Provisional Year End Position

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