

**Bolsover District Council**

**Executive**

**11 July 2016**

<b><u>Financial Outturn 2015/16</u></b>
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**Report of the Leader of the Council**

This report is public

**Purpose of Report**

- To inform Executive of the financial outturn position of the Council in respect of the 2015/16 financial year.

**1 Background Information**

- 1.1 The Council has closed its financial accounts for 2015/16 by the end of May 2016, reflecting the accelerated timescale agreed with our external auditors. The draft Statement of Accounts 2015/16 are now subject to the independent audit from the Council's external auditors, KPMG. Until the accounts have been agreed by our external auditors, which will take place before 30 September 2016, there remains the possibility that they will be subject to amendment.
- 1.2 Members should note that the Council's Draft Statement of Accounts in respect of 2015/16 was authorised for issue by the Council's Chief Financial Officer (Executive Director – Operations) on 27 May 2016. The final audited accounts will be reported to and approved by the Audit Committee at its meeting of 21 September 2016.
- 1.3 International Financial Reporting Standards (IFRS) require that the main focus of the Statement of Accounts is on reporting to the public in a format which is directly comparable with every country that has adopted IFRS i.e. not just UK or even other local authorities. In contrast the focus of this report is on providing management information to Members and other stakeholders to assist in the financial management of the Council.
- 1.4 The following sections of this report will consider the 2015/16 outturn position in respect of the General Fund Revenue Account, the Housing Revenue Account (HRA), the Council's Capital Investment Programme and Treasury Management activities. Within the report consideration is given to the level of balances at the year end, to any impact on the Council's Medium Term Financial Plan of the outturn position, and an assessment of the impact which the closing position has upon the Council's budgets in respect of the current financial year.

## **2      Issues for Consideration**

### **General Fund Revenue Account**

- 2.1. The Council's original budget for 2015/16 approved by Council on 4<sup>th</sup> February 2015, included an unidentified savings target amounting to £0.350m. During 2015/16 the Council has worked to address this shortfall and the ongoing requirement to address its underlying budget position against the background of ongoing reductions in the level of central government funding. As a result of this programme of work the Council had reached a position whereby at the time of the Revised Budget in February 2016 a contribution to reserves of £1.317m was anticipated. The actual outturn position has further improved the underspend to one of £1.346m which has been allocated to the Transformation Reserve (£1.046m) and General Fund Balances (£0.300m). This funding is now available for Members to allocate to investments intended to enhance or protect service delivery during a period when the level of central government support to local government will continue to be reduced. While the following reports and attached appendices detail the outturn position, the main reasons underlying the favourable variances between the original budget and the outturn position were the careful management of service expenditure (both vacancy management and non employee costs), which generated savings of some £0.5m. Improvements in NNDR income (principally arising from membership of the Derbyshire NNDR pool generated additional income of £0.5m, while reduced debt charges and improved investment interest secured some £0.4m:
- 2.2. Where possible, officers will be bringing forward further reports intended to ensure that these budget underspends are captured and are used to reduce the planned level of spending in future years. This will help address the projected underlying shortfall of £1.4m p.a. which the Council is facing over the next three financial years. It needs to be recognised, however, that many of the savings identified in the 2015/16 outturn position do not reflect permanent changes in the Council's income and expenditure patterns. In particular the levels of increased income from business rates, the increase in planning income and rental income at Pleasley Vale reflect the wider national economic recovery. Over the past few years Government support from the Transitional Grant and Efficiency Grant has funded restructuring costs and investments in improving service efficiency thus avoiding the requirement to charge them to the General Fund. While Efficiency Grant continues to be available to the Council during the current financial year (2016/17) it is unlikely to be available beyond 2018/19 when local authorities are facing more significant levels of financial cuts.
- 2.3. While part of the Council's success in addressing the reduction in the level of Government Grant can be attributed to higher than anticipated levels of income arising from national economic growth, it also needs to be recognised that the Council has agreed a range of policies which have ensured that we are well placed to take advantage of such growth, and are able to promote improvements in service efficiency. The additional funding from the Growth Agenda combined with the cost reduction arising from the Transformation Agenda have combined to protect service delivery to local residents. In addition to the Growth and Transformation agenda, there is now an effective culture of financial management

across the authority under which cost centre managers have worked hard to minimise expenditure and to optimise the level of income. While the impact at the level of individual cost centres is often relatively limited, there is a more significant cumulative impact when overall income and expenditure trends are brought together.

- 2.4 The position in respect of the General Fund outturn is detailed in **Appendix A** attached. The appendix shows the Original Budget that was set in February 2015, the Revised Budget agreed in February 2016 together with the Adjusted Current Budget. The Adjusted Current Budget incorporates any further committee approvals since the revised budget and incorporates adjustments for virements and for a change in the use of specific resources such as grants or earmarked reserves. This ensures that this earmarked funding is only utilised in line with the actual expenditure incurred in the year. The actual expenditure for 2015/16 is then compared against this Adjusted Current Budget in order to provide details of any variances. Executive should note that **Appendix B** (attached) provides detailed variances at a cost centre level. Where appropriate a summary explanation of these variances is provided within **Appendix B**.
- 2.5 At the year-end two main decisions have been necessary in order to secure effective closure of the Council's Annual Accounts. As previously agreed through Council, both the savings of £1.046m, together with the Efficiency Grant received in the year have been transferred into the Transformation Reserve resulting in the balance on the Transformation Reserve being one of £5.571m at the year end. While the Council has other general fund reserves available - a General Fund balance of £2.001m and other General Fund earmarked reserves of £3.122m - the Transformation Reserve is effectively the level of reserves which are available to support new initiatives, service reorganisation and restructure. Given the ongoing impact of the austerity agenda Council has previously agreed that the Transformation Reserve will be utilised to facilitate an Invest to Save approach to help ensure that financial sustainability of the Council and the sustainability of the services provided to local residents. While the balance of the Transformation Reserve currently amounts to £5.571m Executive should note that there are a range of commitments against the reserve principally the agreement that £2m will be utilised to fund enhanced Leisure Facilities at Clowne. It is anticipated that by the end of July 2016 the level of uncommitted Transformation Reserve will have fallen to one of £1.7m. It needs to be recognised that initiatives to promote the Council's growth and transformation agenda are likely to come at significant cost and that the remaining Reserve may be fully utilised on a limited number of investments. **Appendix D** attached provides full details concerning the Council's earmarked financial reserves.
- 2.7 The second key decision has been to allocate an amount of £0.795m to the Non Domestic Rates Growth Protection Reserve. Council is aware that while the levels of economic growth generated within the Bolsover area have secured increasing levels of income from Non Domestic Rates, that the localisation of this income stream is accompanied by a transfer of financial risk from central to local government. In setting its budget for 2016/17 the Council undertook a calculation of the level of Non Domestic Rating income that it would receive in respect of 2016/17. That calculation reflected the position as at 31 January 2016. The additional income collected into the Business Rates collection fund is split between

Bolsover District Council (40%), Central Government (50%), Derbyshire County Council (9%) and Derbyshire Fire Authority (1%). At 31st March 2016, the Business Rates collection fund has a deficit of £1.618m. The share of the deficit relating to Bolsover is £0.647m. Accounting regulations mean the repayment to the collection fund to cover this deficit is delayed until the NNDR1 form is submitted to Central Government in January following the year end (January 2017). In order to offset the future impact of this on the General Fund, a transfer of £0.795m has been made at the end of the financial year to enable this reserve to reflect anticipated expenditure payable by the Council.

- 2.8 As outlined above Officers have commenced a piece of work to identify where the evidence from the 2015/16 outturn indicates that it is appropriate to reduce budgets for both 2016/17 and future years in order to secure a contribution to the Council's savings targets. The results of that work will be reported to a future meeting of Executive for consideration.

### **3 Housing Revenue Account (HRA)**

- 3.1 The Housing Revenue Account recorded a small favourable variance of £0.032m against the Revised Budget. These savings have been transferred into the Development Reserve where they will be used to fund future investment in tenants homes. Full details are provided in **Appendix C** to this report. The Housing Revenue Account position shows overall expenditure was £0.075m below the revised budget (column C) and income £0.043m less than anticipated, giving a net cost of services favourable variance of £0.032m for the financial year 2015/16.
- 3.2 The net cost of service was then adjusted to take account of the reduced interest and depreciation costs, and transfers to and from reserves.
- 3.3 The HRA balance has improved – in line with the budget – by an amount of £10k with balances at the year-end amounting to £1.891m. This is an appropriate level to help secure the operational and financial sustainability of the HRA in the light of the HRA Risk Register.

### **Capital Investment Programme**

- 4.1 The capital expenditure incurred by the Council in 2015/16 is detailed on a scheme by scheme basis in **Appendix E** (attached). It can be seen from the appendix that the Council's capital spend in the financial year was £6.811m (£2.362m General Fund and £4.449m HRA). Overall expenditure was £3.175m below the revised budget (£1.845m General Fund and £1.330m HRA).
- 4.2 General Fund Schemes  
During the year the Council commenced work on the enhanced Leisure facilities at Clowne and acquired and refurbished premises for use as a contact centre within Bolsover town centre. Within the General Fund the majority of the under spend in the year relates to Vehicles (£1.344), the majority of which will be carried forward to 2016/17. Other General Fund schemes show a net underspend of £0.501m. With respect to the underspend of £1.845m on the General fund, £1.176 m is planned to

take place in 2016/17 and accordingly it is recommended that Executive agree to allow the associated funding to be taken forward.

#### 4.3 HRA Schemes

During the year the Council spent £1.270m on heating upgrades, £0.880m on reroofing work, £0.570m on External Wall Insulation and £0.424m on replacement kitchens. This work has secured significant improvements to tenant's homes. In addition the Council expended over £0.5m on progressing its agreed objective of building 100 new Council homes with building progressing and necessary land acquired. Again with respect to the underspend of £1.330m it is recommended that £1.142m be approved for carry forward into 2016/17.

#### 4.4 Capital Financing

The Capital Programme was financed as follows:-

	<b>Revised Budget 2015/16 £000</b>	<b>Actual 2015/16 £000</b>	<b>Variance £000</b>
<b>HRA</b>			
Major Repairs Reserve	(4,394)	(3,471)	(923)
Capital Receipts (inc 1-4-1 receipts)	0	(87)	86
Prudential Borrowing	(547)	(420)	(126)
Revenue Contribution to Capital	(67)	(67)	0
External Grant	0	(139)	139
HRA Vehicle Reserve	(772)	(266)	(506)
<b>Total</b>	<b>(5,780)</b>	<b>(4,450)</b>	<b>(1,330)</b>
<b>General Fund</b>			
Prudential Borrowing – Gen Fund	(1,846)	(722)	(1,124)
Capital Grants and Contributions	(467)	(520)	53
Capital Receipts	(742)	(216)	(526)
Reserves	(1,152)	(859)	(293)
Revenue Contribution to Capital	0	(45)	45
<b>Total</b>	<b>(4,207)</b>	<b>(2,362)</b>	<b>(1,845)</b>
<b>Grand Total</b>	<b>(9,987)</b>	<b>(6,812)</b>	<b>(3,175)</b>

#### 4.5 HRA Capital Financing

The spending on the HRA programme was £1.330m below the Revised Budget. Therefore officers have been able to utilise available Council resources when considering the financing of the programme. One key change is the use of £0.087m of capital receipts as a contribution towards the financing of 7 new houses at Creswell.

The Council has entered into an agreement with the Government to retain a greater proportion of its capital receipts from the sale of council houses on the condition that they are used to support the financing of new council housing. If the additional amount of retained receipts is not applied to a particular scheme within a certain time period, the Council is obliged to repay the receipts plus interest. Therefore the application of these receipts in 2015/16 to this scheme satisfies the relevant conditions. Prudential borrowing of £0.420 was undertaken in 2015/16 for vehicles.

#### 4.6 General Fund Capital Financing

Officers have sought to minimise the need to undertake prudential borrowing when completing the financing of this element of the capital programme. Prudential borrowing of £0.722m was undertaken in 2015/16 for vehicles, asset management plan and ICT schemes.

#### 4.7 Capital Receipts

The table below summarises the capital receipts received and used by the Council in 2015/16:

<b>Capital Receipt</b>	<b>Net Receipts in year £000</b>	<b>Available Capital Receipts £000</b>
Available Receipts 1 April 2015		0
<b>2015/6</b>		
Sale of Council Houses (32 sales)	(1,306)	
Land at Sherwood Lodge	(2,612)	
Other Land Sales	(38)	
Less - Pooling Costs	451	
Less - Allowable Debt (used to repay HRA debt)	590	
Sub - Total		(2,915)
Used for Capital Financing in 2015/16		303
<b>Total Available Receipts 31 March 2016</b>		<b>(2,612)</b>

### 5 Treasury Management

5.1 At **Appendix F** is a brief report on the Treasury Management activity of the Council for 2015/16. In summary the Council operated throughout 2015/16 within the Authorised Limit and Operational Boundary limits approved in the Treasury Management strategy approved by the Council in February 2015.

5.2 The key facts from the report are:

- The overall borrowing requirement of the Council is £95.824m at 31 March 2016.
- The PWLB debt is £104.100m
- The finance lease debt is £0.019m

- No new PWLB borrowing was undertaken in 2015/16
- The HRA headroom at 31 March 2016 is £22.927m
- PWLB interest paid in 2015/16 was £3.675m
- Interest received on investments was £0.217m
- The Council had £39.0m invested at 31 March 2016

## **6 Conclusions and Reasons for Recommendation**

### **6.1 General Fund**

The Council has successfully met its savings target in respect of 2015/16 and has effectively managed its financial position to allow a contribution to the Transformation Reserve of £1.046m. While at the end of the financial year the Transformation Reserve amounted to £5.571m, with a further amount of £0.843m Efficiency Grant agreed to be transferred into the Reserve in 2016/17 it needs to be recognised that there are significant agreed commitments against the Reserve. On the basis that all recommendations to this meeting of Executive are accepted the reserve will have only £1.7m of uncommitted resources. As part of the review of the Medium Term Financial Plan which will be undertaken during the course of the current financial year Officers will give consideration to the use of capital receipts to fund certain of the agreed expenditure in order to protect the level of the Transformation Reserve for future years. While there are significant calls against the Transformation Reserve it does need to be recognised that the majority of these secure ongoing savings in the Council's revenue budgets which are crucial if the Council is to operate effectively against a background of ongoing central government funding reductions.

Officers will evaluate the 2015/16 financial outturn to identify areas where the budget can be reduced in respect of 2016/17 and future financial years. While it would be reasonable to anticipate that some savings will be secured some of the income growth and expenditure reductions had already been built into budgets for 2016/17 and future years whilst other savings which arose in 2015/16 cannot be relied upon to re-occur in the current or future financial years. The contribution to the Transformation Reserve has, however, provided the Council with resources to progress its Growth and Transformation agendas in order to protect the level of services to local residents.

### **6.2 HRA**

The HRA has delivered an underspend of £0.032m which has been used to increase the level of the Development Reserve. The HRA continues to operate within the parameters established by the Business Plan and MTFP.

### **6.3 Capital Programme**

The Capital Programme details total expenditure of £6.811 into a range of projects designed to deliver services and progress the Council's priorities. Appendix E shows that a number of schemes are ongoing and therefore both the expenditure and resources relating to these approved schemes will need to be carried forward to 2016/17. The Capital Programme was fully funded from within agreed resources during the year.

### **6.4 Treasury Management**

During 2015/16 the Council has continued to operate within the framework established by the Treasury Management Strategy as approved in February 2015.

## **7 Consultation and Equality Impact**

- 7.1 No direct implications..

## **8 Alternative Options and Reasons for Rejection**

- 8.1 The financial outturn report for 2015/16 is primarily a factual report which details the outcome of previously approved budgets therefore there are no alternative options to consider.
- 8.2 The allocation of resources to earmarked reserve accounts has been determined in the light of the previously agreed policies of the Council. If the issues and risks currently anticipated do not materialise or are settled at a lower cost than anticipated then the earmarked reserve will be reassessed and returned to general balances.

## **9 Financial and Risk Implications**

- 9.1 The financial implications are set out within the body of the report.
- 9.2 Members should note that the budgets against which we have monitored the 2015/16 outturn were those agreed within the Council's Medium Term Financial Plan. The Medium Term Financial Plan gave careful consideration to both the affordability of the budgets that were approved, and to ensuring that the level of balances remained adequate for purposes of enabling sound financial management. The fact that the outturn position for 2015/16 indicates that these financial targets have been achieved, gives the Council a firm foundation from which to achieve the service delivery and financial targets approved within the current Medium Term Financial Plan.
- 9.3 The issue of Financial Risk is covered throughout the report. The risk of not achieving a balanced budget, together with the risk that the Council's level of financial balances will be further eroded are currently key corporate risks identified on the Council's Strategic Risk Register. The outturn report shows that the Council's approach to mitigating these risks during 2015/16 has been successful, with our budgets balanced and the level of financial reserves improved.
- 9.4 While the Council has effectively addressed its Strategic Financial Risks during 2015/16 it needs to be recognised that the Council will need to continue to meet a range of challenging savings targets if it is to operate effectively within the financial environment established by the Comprehensive Spending Review.

## **10 Legal Implications including Data Protection**

- 10.1 The Statement of Accounts is required to be prepared by the 30 June each year. The Council has now completed the accounts and they have been signed off by the Chief Financial Officer as at the 27 May 2016 which secures compliance with the Council's legal obligations.



## **11 Human Resources Implications**

- 11.1 There are no Human Resources issues arising directly from this report.

## **12 Recommendations**

- 12.1 That Members note the report and in particular the Council's financial outturn position in respect of 2015/16.

### General Fund

- 12.2 That Members request the Accountancy Section to undertake a review of the under spend position of 2015/16 to determine where budget changes may be made to the 2016/17 and future budgets.

### Housing Revenue Account

- 12.3 That Members note the outturn position of the HRA and the level of balances held at 31 March 2016 of £1,891,151.

### Capital Programme

- 12.4 That Members approve the proposed carry forward of capital budgets detailed in Appendix E and totalling £2,910,674.

### Treasury Management

- 12.5 That Members note the Treasury Management reported position as at 31 March 2016.

## **13 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	Not directly
<b>Links to Corporate Plan priorities or Policy Framework</b>	The Council's budgets are linked to its corporate priorities in order to ensure that expenditure is directed towards securing the Council's Corporate Plan priorities.

## **14 Document Information**

<b>Appendix No</b>	<b>Title</b>
A	General Fund Summary 2015/2016

B	General Fund Account Outturn 2015/2016
C	HRA Income and Expenditure Account 2015/2016
D	Earmarked Reserves and Balances
E	Capital Programme 2015/16
F	Treasury Management 2015/16
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Held in Financial Services	
<b>Report Author</b>	<b>Contact Number</b>
Assistant Director – Finance, Revenues & Benefits	2214