

REVENUE AND CAPITAL OUTTURN 2019/20

Cabinet Member Cllr Alex White
Responsible Officer Deputy Chief Executive (S151): Andrew Jarrett

Reason for Report: To present the revenue and capital outturn figures for the financial year 2019/20.

RECOMMENDATION(S): That Cabinet -

1 - Note the General Fund outturn achieved in 2019/20 which shows an overall overspend of £232k. This deficit is proposed to be taken from General Fund reserve which will still leave the balance above our minimum recommended level.

2 - Approve the net transfers to earmarked reserves of £686k detailed in the General Fund service budget variance reports shown in Appendix 1 and summarised in Appendix 3.

3 - Note the positive position achieved on the Housing Revenue Account which shows a saving of £608k and approve the “earmarking” of the extra £608k shown in paragraph 4.2, as well as the utilisation of reserves totalling £859k identified in Appendices 2 and 3.

4 - Approve the carry forward of £9.741m from the 2019/20 capital programme (see paragraph 6.3) as all of the schemes will be delivered in 2020/21 or later years. Also approve the transfer to Earmarked reserves of the un-spent £208k identified in Appendix 4.

Relationship to the Corporate Plan: The financial resources of the Council impact directly on its ability to deliver the corporate plan prioritising the use of available resources carried forward from 2019/20. All future spending will be closely linked to key council pledges from the updated corporate plan.

Financial Implications: Good financial management and administration underpin the entire document.

Legal Implications: None.

Risk Assessment: Regular financial monitoring information mitigates the risk of over or underspends at year end and allows the Council to direct its resources to key corporate priorities.

Equality Impact Assessment: No equality issues identified for this report.

Impact on Climate Change: No impacts identified for this report.

1 Executive Summary

- 1.1 This report contains information relating to the Council's performance for the 2019/20 financial year. The outturn figures included are provisional subject to external review; the findings of which are to be reported to Audit Committee in August this year.
- 1.2 Monitoring the budget is an important part of the Council's performance management framework.
- 1.3 The revenue outturn position for the financial year 2019/20 is as follows:
- The General Fund (GF) Revenue Outturn position for 2019/20 is a net overspend of £232k. The table below assumes this transfer.
 - The HRA is a "Self-Financing" account for the Council's Housing Landlord function, which is budgeted to "break even" (net of approved transfers to/from HRA Reserves). The HRA Outturn for 2019/20 is a net underspend of £608k.

	31 March 2019	In year movement	31 March 2020
	£k	£k	£k
General Fund Reserve	2,501	(250)	2,251
Housing Revenue Account Reserve	2,000	0	2,000

- 1.4 The Capital outturn position for 2019/20 is shown in Section 6.

2 Introduction

- 2.1 Members of the Cabinet should note that the outturn report is fundamentally a set of management reports that show the year end position on all service areas. The Finance Team then have to turn these management reports into the statutory financial statements which are subject to a wide number of complex accounting rules that often significantly change the final picture of a service's financial position for the year. However, it is important to note that the bottom-line profit or loss for the year remains constant.
- 2.2 Members will be aware from previous experience that the position can change between "in-year" projections and the final outturn position, mainly due to demand-led service costs and income levels. The budget monitoring process involves a regular review of budgets. Budgetholders, with support and advice from their accountants, review the position and update their forecasts based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that assumptions and estimates will differ from the eventual outcome.
- 2.3 During the budget setting process we continue to ensure that revenue budgets are set on a robust basis and take a prudent view of the likely levels of income and expenditure.

2.4 On March 20 2020, the country was put into lockdown as a response to the Covid 19 pandemic. It has affected us all greatly, and the impacts on this Authority have been wide ranging: from the ways we make decisions; to new operations including assistance to those who are shielding, the distribution of grants to support local businesses and additional assistance for the homeless; the closure of leisure centres and wholesale changes to working practices, with most staff working from home or indeed on furlough. However, the timing of the crisis is such that the impacts on the financial year being reported are minimal. It will have truly significant effects on our income as leisure centres have closed, car parks are empty and a broad range of services are suspended. The effects of this and the Council’s responses to them will be reported through the appropriate channels.

3 The General Fund Reserve

3.1 This is the major revenue reserve of the Council. It is increased or decreased by the surplus or deficit generated on the General Fund in the year. This reserve held a balance of £2.501m at the end of 2018/19 following the end of year transfers. In 2019/20 there were a number of transfers and contributions to general reserves resulting in the final transfer out of £250k being the £232k deficit generated in year plus £18k Brexit funding received in 2018/19 and transferred to an EMR this year. If this is approved, the General Fund Reserve will still remain slightly above the recommended minimum level of £2.0m as required by Cabinet agreement on 16 January 2020.

3.2 Detailed budget monitoring reports were provided to both senior managers and Members throughout 2019/20. This monitoring focused on significant budget variances (+/- £10k), included remedial action where necessary and estimated an overall outturn position. The final written monitoring report considered by the Cabinet gave a detailed position as at 31 December 2019 and predicted an end of year deficit of £252k for the General Fund. Therefore the final position improved by £20k.

3.3 The table below shows the overall budget, actual and variance, summarised for 2019/20.

	2019/20 Budget £	2019/20 Actual £	Variance £
Total Cost of Services	10,244,904	10,743,136	498,232
Other Income and Expenditure	(60,605)	(388,540)	(327,935)
TOTAL BUDGETED EXPENDITURE	10,184,299	10,354,596	170,297
TOTAL FUNDING	(10,184,299)	(10,122,290)	62,009
Net Income and Expenditure	0	232,306	232,306

3.4 A detailed explanation of all the key variances is shown in Appendix 1, service by service. Inevitably, within a service, there are often variances which compensate. Some areas may create savings which in turn can be partly or fully offset by overspends elsewhere. In this report we have tried to highlight the major movements to enable Members to appreciate the more significant trends within each service area.

NB – where any of the above variances were deemed to be recurring, the 2020/21 budget was adjusted accordingly.

3.5 The overall effect of the 2019/20 financial year would result in a General Fund Balance of £2.252m which is in line with the Council’s own minimum requirement of £2.0m (agreed by Cabinet 16 January 2020).

3.6 In addition to the GF Balance, the Council holds a number of Earmarked Reserves (EMRs) which are used to help fund anticipated future expenditure commitments. The net movement of £0.683m from these reserves and the end of year balances held on them are shown in Appendix 3.

3.7 **Market Walk and Fore Street Shops, Tiverton**

Members will no doubt be keen to see this year’s results following the acquisition of the shops in March 2015. At minus 1.2% the return on investment has dropped compared to 2018/19 (+1.3%). Net rental income has reduced due to negative rent reviews. Further, the number of vacant units has risen, which is partly due to relets being withheld in Fore Street pending the Tiverton Enhancement Project (now discontinued). These are challenging times “on the high street” and we are mindful that we must balance the return on our investment with the perception and vision for the town, hence we may accept a lower return in exchange for occupancy of the units.

The various elements are shown in different areas of the Income and Expenditure account, but the overall position is as follows:

	<u>£k</u>
Net rental income after expenses (Shown within property Services committee)	(128)
Interest payable on Public Works Loan Board loan	95
Statutory Capital Financing (over 50 years)	83

Net (surplus)/deficit for the year	50
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This income equates to an approximate return net of borrowing costs of -1.2% being $-50k \div 4,173k$ (£4.173m = Principal).

4.0 **Housing Revenue Account (HRA)**

4.1 This is a ring-fenced reserve in respect of the Council’s housing landlord function. It is increased or decreased by the surplus or deficit generated on the HRA in the year. For 2019/20 the outturn is a net surplus of £608k and Members are requested to approve a transfer to HRA reserves to bring this to zero.

4.2 This surplus is explained in paragraph 4.4 and the effect of it on the HRA balance is shown below.

HRA Balance

	£m
HRA balance @ 31/03/19	(2.000)
Budget saving achieved in 2019/20	(0.608)
Additional transfer to 30yr modernisation programme	0.608
HRA balance @ 31/03/20	(2.000)

- 4.3 After the strong closing financial position delivered in 2019/20, it is recommended to transfer a sum of £608k into the Housing Maintenance Fund earmarked reserve. This is in addition to the £764k budgeted in-year contribution. The above position leaves an HRA balance of £2.0m as at 31 March 2020.
- 4.4 Main budget variances during 2019/20 giving rise to the figure of £608k include £252k salary savings (which include savings relating to retirements and vacant posts as well as standby payments to depot staff); £235k underspend on new projects and £61k saving where anticipated financing of capital spend was not utilised, whilst the increased number of affordable housing units being applied in year contributed to dwelling rents exceeding expectations by £122k. For further details, please see the HRA Outturn Summary for 2019/20, which is attached as Appendix 2 to this report.
- 4.5 In addition to the above, the HRA hold a number of earmarked reserves. The movements on these during 2019/20 and their closing balances are shown on Appendix 3. This money is effectively “ring fenced” and will be held to meet expenditure on projects during 2020/21 and beyond.

5.0 The Collection Fund

- 5.1 Mid Devon is a collection authority for council tax and national non-domestic rates, and as such, is required to produce a collection fund account for the Mid Devon area. The Council collects council tax on behalf of Devon County Council, Devon Fire and Rescue Service, Devon & Cornwall Police and the Town/Parish Councils.
- 5.2 The council tax collection rate for 2019/20 was 97.8% (97.8% in 2018/19). This demonstrates how our Revenues section has consistently been effective in collecting the annual charge in extremely challenging economic times. The Non Domestic Rates collection rate was 98.8% for 2019/20 (99.3% in 2018/19).

6.0 Capital Outturn

- 6.1 A capital outturn summary is attached as Appendix 4 to this report. The revised capital budget for 2019/20 amounted to £35.193m. At the year-end we had spent £12.197m leaving the capital programme underspent in total by £22.996m.

- 6.2 Capital receipts of £0.463m (this includes general useable capital receipts and ring-fenced replacement homes capital receipts) were applied to finance the programme with the balance of the expenditure met by a combination of borrowing, external grants and contributions from reserves.
- 6.3 As shown in Appendix 4 there are capital projects totalling £9.741m which have not been completed as at the 31 March 2020. This expenditure, therefore, needs to be rolled forward to be included in the 2020/21 capital programme. These schemes are still fully funded by either unspent capital grants or by provisions held within capital earmarked reserves. In addition there is £99k relating to Affordable Housing and £109k HRA Renewable Energy that will remain in a reserve for future prioritisation.
- 6.4 The Capital Receipts Reserve (note this includes general useable capital receipts and ring-fenced replacement homes capital receipts) is used to part fund the capital programme - the movement on this account for the year is given below:

	£m
Balance at 1 April 2019	(3.621)
• Sale of Council Houses (29)	(2.334)
• General Fund Sales	(0.075)
• Open Market Housing sales (2)	(0.485)
• Pooling of Housing Capital Receipts to Government.	0.895
• Capital Receipts applied in year	0.463
Balance at 31 March 2020	(5.157)

Note – the remaining balance of £5.157m is committed in order to fund any slippage, specific projects in ICT and Private Sector Housing and to balance the Capital Medium Term Financial Plan.

- 6.5 The Capital Earmarked Reserve has been set aside from Revenue to fund capital projects; the balance on this reserve now stands at £301k made up by the following transactions:

	£k
Balance at 1 April 2019	(415)
Contribution to EMR	(2)
Funding required to deliver the 2019/20 Programme	116
Balance at 31 March 2020	(301)

Note – the remaining balance of £301k is committed in order to fund any slippage and to balance the Capital Medium Term Financial Plan.

- 6.6 The Council also holds New Homes Bonus which can be used for either Revenue or to support future Capital Programmes, the balance held at 31 March 2020 is £3.499m; again much of this remaining balance is committed to funding any slippage and to balance the Capital Medium Term Financial Plan.

7.0 Treasury Management

- 7.1 A review of the 2019/20 investment performance, including the details of interest payable, are included within the separate 2019/20 Treasury Outturn Report.

- 7.2 As detailed in this report, the Authority holds a 100% interest in 3 Rivers Development Limited, a private limited company engaged in construction in the Mid Devon area. The Authority advances funds to the Company to facilitate operations with the intention that they are repaid from the proceeds of the sale of the developments.

During the year ended 31 March 2020, £6.446m was loaned to the Company and total loan value at this date was £9.061m. During the year £251k interest was paid to the Authority in respect of these loans.

These loans are subject to overarching management review on a regular basis. This is reflected in the impairments made in both periodic monitoring reports and in the year end financial statements. The year end review, carried out in compliance with IFRS 9 Financial Instruments, led to impairments totalling £790k in respect of one of the project loans and the working capital loan.

8.0 Conclusion

- 8.1 Members are asked to note the revenue and capital outturn figures for the financial year 2019/20 and agree the proposed earmarking of surplus funds generated by in year savings from both the GF and the HRA. In addition, Members are requested to approve the incomplete projects on the 2019/20 capital programme be rolled forward into the 2020/21 capital programme.

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Background Papers:

Circulation of the Report:

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