

FINAL ACCOUNTS 2018/19 – REVENUE OUTTURN POSITION

REPORT OF THE HEAD OF FINANCE

1 PURPOSE OF REPORT

1.1 This report summarises the revenue outturn position and impact on balances and reserves following the closure of the 2018/19 accounts. There are three main sections covering:-

- An overview of directorate under and overspendings and variances on centrally controlled budgets during the year.
- The impact of the above on the level of available general fund balances carried forward into future years, and recommendations as to their use.
- The net movement in reserves used to support services in the current year, or set aside to manage service costs in future years

2 NEED FOR A DECISION

2.1 Under the Council's Financial Procedure Rules, a report covering the final outturn position must be presented to Cabinet each year for formal approval. Members are invited to request any further reports on outturn performance in relation to directorate budgets, and to determine any action required in light of the overall outturn position and levels of unallocated balances.

3 RECOMMENDATION

It is recommended that Cabinet:

- 3.1 Notes the summary analysis of the 2018/19 outturn position, and the impact on available balances and reserves.
- 3.2 Agrees to retaining balances above the minimum level to provide flexibility in response to issues the Council is likely to face (paragraph 5.3).
- 3.3 Requests that this report be presented to the Strategy and Performance Scrutiny Board.

Nigel Broadbent

Head of Finance

4 BACKGROUND AND DETAILS

- 4.1.1. The Council's management accounts are based on the Council's directorate structure, and are used to help plan and control service delivery within the financial resources specifically approved by Council. They reflect the way the Council is organised and the delegations of budget responsibility, with some costs being delegated to directors to manage, and some being met corporately by the Council.
- 4.1.2 This report shows whether services have been delivered during the financial year to 31st March 2019 within delegated budgets (i.e. whether they have cost more, or less, than planned), the reasons for any variances, and the impact on future years.
- 4.1.3 As they serve a different purpose, management accounts are prepared on bases which do not reflect all the accounting policies required in the preparation of the financial accounting statements.
- 4.1.4 The financial accounts will be subject to external audit and the final audited accounts, in accordance with the new prescribed timetable, will be presented to Audit Committee before the end of July. These accounts will include a statement showing how the financial accounts reconcile back to the management accounts.

4.2 Summary

- 4.2.1 In total, at year-end, there were overspends of £2.220m on Adult Services & Wellbeing, Children & Young People's Services and the Chief Executive's Office. Two directorates, Public Services and Regeneration & Strategy, underspent by £533k in total.
- 4.2.2 Outturn positions for all directorates improved compared to the latest reported monitor. Forecast overspends on Children and Young People's Services (from £1.284m in the third revenue monitor to £1.056m at outturn) and Chief Executive's Office (from £0.326m to £0.181m) fell slightly, whilst the overspending on Adult Services and Wellbeing (£0.983m) was virtually unchanged.
- 4.2.3 Regeneration and Strategy reported an underspending of £0.103m (largely due to a continued mild winter) compared to a monitored breakeven position, and Public Services underspent by £0.430m compared to a projected overspending of £0.168m. In total, the overall position improved by nearly £1.5m from the latest monitor to the outturn position due to action taken and additional funding.
- 4.2.4 Directorate underspendings have been carried forward in reserves for use by those directorates in 2019/20 (subject to a valid business case and depending on their budget position) in accordance with Council policy.

- 4.2.5 Directorate overspendings have been met from a mixture of centrally controlled underspendings previously identified (£0.792m), additional centrally controlled underspendings identified at the year end (£0.413m), with the balance of £1.015m being met from the investment reserve in line with Cabinet's agreed strategy for treating overspends in 2018/19. In general, the Council's finances rely increasingly on short term solutions rather than longer term, sustainable budgets. It is recommended and assumed within this report that as Cabinet had approved a sum of up to £2m, the remaining investment reserve of £985k be retained to support the budget if necessary in 2019/20.
- 4.2.6 Balances have decreased during the year by the budgeted £1.159m and stand at £5.828m at the year end. Some of this is already being used to support future budgets. As Council policy is to maintain a minimum level of £5m of balances, there is little room for manoeuvre.
- 4.2.7 Reserves overall have decreased by £0.970m. School balances and funding reserved for schools have risen by £1.4m. Directorates drew on £2.6m of reserves to fund services and manage budget pressures. Central reserves fell by £0.3m which includes the £1m drawn down to cover directorate overspendings. Directorate underspendings of £0.5m were carried forward.
- 4.2.8 The following table summarises the outturn positions for each directorate, comparing them to the budget and the latest monitoring forecast, and identifies the impact on the Council's overall levels of balances and reserves.

Net Funding Requirement 2018/19	Expenditure	Income	Net Expenditure	Movement in Reserves	Net Funding Requirement	Final Net Budget	Service over-spends and centrally controlled variances	Service under-spends	Forecast Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Service and Wellbeing	92,122	-37,194	54,928	-216	54,712	53,729	983	0	985
Chief Executive's Office	30,394	-15,881	14,513	-917	13,596	13,415	181	0	326
Children and Young People's Services	150,215	-126,469	23,746	11	23,757	22,701	1,056	0	1,284
Public Services	45,534	-20,097	25,437	-67	25,370	25,800	0	-430	168
Regeneration and Strategy	28,394	-9,319	19,075	-970	18,105	18,208	0	-103	0
Service managed budgets	346,659	-208,960	137,699	-2,159	135,540	133,853	2,220	-533	2,763
Centrally managed budgets	73,833	-50,950	22,883	1,671	24,554	24,752	-198		-155
Funding	0	-158,453	-158,453	0	-158,453	-157,446	-1,007		-637
Total	420,492	-418,363	2,129	-488	1,641	1,159	1,015	-533	1,971

Impact on Reserves

Service underspends carried forward in reserves

533

Net service overspends and centrally controlled items met by reserves as agreed by Cabinet

-1,015

Opening reserves
£'000

Closing reserves
£'000

Total movement in reserves

-970

42,654

41,684

Impact on Balances

Budgeted movement in balances

-1,159

Service overspends and centrally controlled variations not met by reserves agreed by Cabinet.

0

Opening balances
£'000

Closing balances
£'000

Total movement in balances

-1,159

6,987

5,828

Total Reserves and Balances

-970

-1,159

49,641

47,512

4.2.9 The rest of the report is split into three sections, giving more detail on all the above headline figures and issues: -

- **Section 4.3** gives an overview of directorate under and overspends, and variances on centrally controlled budgets;
- **Section 4.4** explains the impact of the above on general balances;
- **Section 4.5** explains the movement in reserves;

4.3 Overview of directorate under and overspendings and variances on centrally controlled budgets

4.3.1 Service controlled over and underspendings

4.3.1.1 The main table shows outturn positions compared to the latest monitor. There has been a general improvement of almost £1.5m compared to the forecast position reported to Cabinet in January.

4.3.1.2 Total service controlled underspendings of £533k have been carried forward in reserves to 2019/20 in accordance with Council policy - £430k by Public Services and £103k by Regeneration and Strategy. The Public Services outturn position improved due to the deferred implementation of certain projects. The outturn position on Regeneration and Strategy benefited from an uncommonly mild winter resulting in an underspending on winter maintenance of £503k which helped offset cost pressures elsewhere in the directorate.

4.3.1.3 Three directorates overspent by £2,220k, all broadly in line with previous estimates, but all showing a slightly better outturn position. Within the Children and Young People's directorate, Early Intervention & Safeguarding, unachieved budget savings and continuing pressures on the cost of Children Looked After contributed to the overspend. The outturn position though improved by £228k due to a mixture of maximising grant, increased income levels and delays in recruitment.

4.3.1.4 The Chief Executive's Directorate overspent mainly due to a fall in income from legal fees and increases in costs due to agency staff being recruited, again within Legal Services. However, the outturn improved compared to the last monitor by £145k due to active staff vacancy management and securing some external funding for work undertaken within Finance Services. Adult Services and Wellbeing outturn was just £2k better than forecast. The overspend was mainly due to the All Age Disability Service which transferred over from Children & Young People (Learning Services) to the Adult Services and Wellbeing Directorate during the year.

4.3.1.5 There were some centrally controlled underspendings which could be used partly to offset directorate overspendings, and the balance has been met from the investment reserve in line with the strategy approved by Cabinet in the Autumn. (The strategy allowed up to £2m to be used for this purpose. In the end, the requirement was just over £1m.).

4.3.1.6 Prudent financial management allows directors to set aside funding for future expenditure from existing resources by setting up reserves. Although the spending occurs in later years, earmarking funding for such spend counts against current budgets. Service outturn positions are shown after all appropriations to and from reserves. Details of movements in reserves are shown in section 4.5.

4.3.2 Centrally controlled over and underspendings

4.3.2.1 Certain types of income and expenditure are categorised as being “centrally controlled” and final under (over) spends are considered corporately and taken into overall balances (i.e. not retained by directorates). Net centrally controlled underspends have been used, with reserves, to fund directorate overspends in 2018/19. These are: -

	Underspend (+) / Overspend (-)
	<u>£k</u>
• Debt recovery costs	179
• Apprentice Levy	-133
• Extra central government funding	1,006
• Other miscellaneous	<u>153</u>
Net improvement in balances used to set against directorate overspends	<u>1,205</u>

Debt recovery costs.

These are the costs of chasing council tax, business rates and sundry debtors for payment. Securing payment of debts and associated recovery costs has led to an underspend during the year.

Apprentice Levy

This is a flat percentage of the payroll paid to the Government and from which we can draw down funding for apprenticeship training. The budget needs revising to reflect current payroll costs and reimbursements from schools.

Extra central government funding

This includes the levy surplus grant of £637k identified at the last monitor. In addition, there was the late receipt of central government grant received over and above previous notifications, particularly in relation to Brexit.

Other miscellaneous

This is broadly in line with that forecast in the last monitoring report.

4.4 Movement in General Fund balances

4.4.1 In line with budget, £1,159k of general fund balances have been used during the year, reducing balances at the year end to £5,828k.

4.4.2 A minimum level of balances of £5m is maintained to meet unexpected expenditure and other fluctuations during the year. This is just over 1% of gross expenditure.

4.4.3 Balances above the target minimum level of £5m are potentially available to the Council to support unforeseen or additional spending; to “buy time” in delivering required savings programmes, or to reduce future Council Tax levels on a one off basis. The principles of the Council’s financial strategy are that balances should only be used in a sustainable manner – for example to deal with one off costs or to provide initial funding for projects pending identification of sustainable longer term funding. Balances in excess of the minimum requirement which remain unspent are invested and earn interest.

- 4.4.4 Balances of £5,828k will be carried forward into 2019/20. Budget Council 2019 approved £317k of balances to be used to protect service spend in 2019/20.

Balances forecast	£'000
Balances at 31/3/18	6,987
Requirement 18/19	-1,159
Balances at 31/3/19	5,828
Requirement 19/20	-317
Balances at 31/3/20	5,511
Requirement 20/21	0
Balances at 31/3/21	5,511
Requirement 21/22	0
Balances at 31/3/22	5,511

There remains just £511k above the minimum recommended level, and therefore little flexibility going forward. The position will be reviewed as part of the Medium Term Financial Strategy which allows all service cost pressures, target savings and risks to be considered and assessed corporately.

4.5 Movement in reserves

- 4.5.1 Reserves, including school balances, are “one off” sums set aside by services for specific purposes, or centrally in line with Council policies. Directorates can also draw down from corporate reserves held for specific purposes. Total reserves fell by £0.970m from £42.7m at the start of the year to £41.7m at the year end. The movement in reserves is made up as follows: -

Contributions to and from Reserves	Service reserves	Corporate reserves	School reserves	Total movement in reserves
	£'000	£'000	£'000	£'000
Adult Service and Wellbeing	-216	0		-216
Chief Executive's Office	-697	-220		-917
Children and Young People's Services	-1,416	72	1,355	11
Public Services	-36	-31		-67
Regeneration and Strategy	-184	-786		-970
Service managed budgets	-2,549	-965	1,355	-2,159
Centrally managed budgets	0	1,671		1,671
Total	-2,549	706	1,355	-488
Year end underspendings c/f		533		533
Strategic use of reserve to balance budget		-1,015		-1,015
Total movements explained below	-2,549	224	1,355	-970

Classification	Reserves managed	Purpose	Increase (+) / Decrease (-) £m	Para- graph
1. Service	By Service Directorates under general delegations	Specific future projects, costs and budget pressures.	-£2.549	4.5.2
2. Corporate	Centrally under specific Cabinet approvals	Approved reserves such as the Investment reserve, Flood support and MRP reserves.	-£0.309	4.5.3
3. School	By Schools	School balances and other funding ringfenced to schools.	£1.355	4.5.4
4. Year end Under-spending	Centrally, and carried forward in line with approved Cabinet policy	Service controlled underspendings.	£0.533	4.5.5
Total Movement in Reserves			-£0.970	

4.5.2 Movement on Service Reserves - (£2.549m).

- Public services have put monies into the ICT reserve and drawn down monies for community safety and resilience. (*net nil*)
- Adult services and wellbeing have put monies into domestic abuse and gateway to care, and have drawn down from monies previously set aside to fund ongoing projects for vulnerable adults and children at risk. (*net drawdown £0.2m*).
- Regeneration and Strategy have drawn down £0.2m of section 106 monies. (*net drawdown £0.2m*).
- Children and Young People have drawn down commissioning grant funding and used the service pressures reserve to help manage ongoing cost pressures (*net drawdown £1.4m*).
- Chief Executives. Grant monies have been drawn down from the public health reserve to carry out work programmes during the year. (*net drawdown £0.7m*).

4.5.3 Movement on Central reserves (-£0.309m)

- £1m was drawn down from the investment reserve to meet the net overspend against the revenue budget.
- There were further drawdowns for capital programme financing and to support flood resilience work.
- A planned £2.1m has been made into the MRP reserve to smooth out the effect of reprofiling debt repayments.

4.5.4 Movement on school balances (£1.355m).

- There has been an increase in retained school balances and associated funds held specifically for schools.

4.5.5 Year end underspendings (£0.533m)

- Under Council policy, services can carry forward underspendings in one year and use them in the following year. This year, service underspendings of £0.5m are being carried forward for Public Services (£0.430m) and Regeneration and Strategy (£0.103m).

5 OPTIONS CONSIDERED

5.1 This report is presented primarily for information. The surplus of balances identified following the closure of accounts is £0.828m above the recommended minimum level of balances, and this surplus will be available to assist the strategic financial management of the Council. Members have already approved £0.317m from balances to support services over the period 2019/20 to 2021/22.

5.2 The options then remain for Members to: -

- Retain the additional remaining balances of £0.511m which are not yet planned to be used in support of future year budgets for consideration at the first reported revenue monitor/MTFS review, or
- Determine now whether any additional resources should be allocated to identified budget risk or service priority areas on a one off basis.

5.3 Future year budgets include challenging savings targets which have not yet been addressed and further savings of £5m yet to be identified in each of the years 2020/21 and 2021/22. It is therefore recommended that any surplus balances be retained and considered as part of the MTFS in September.

5.4 This report assumes that service underspends totalling £533k will be carried forward by those directorates into 2019/20, in line with Council policy. There is also an option for these underspends to be retained centrally to help deal with future corporate budget pressures. The recommendation for services to carry forward assumes those services can produce a valid business case justifying retaining these reserves and will only be released once the service can demonstrate that they are addressing existing budget pressures and delivering on savings targets.

6. FINANCIAL IMPLICATIONS

6.1 These are set out in sections 4 and 5. Section 4 identifies the net spend by services; the effect on available balances and the movements in reserves. Total balances of £5.828m have been carried forward to 2019/20. Some of the surplus above the minimum recommended level of balances is planned to be used to balance the budget over the next 3 years. The recommendation is that the remaining £0.511m be retained to provide greater cover against future financial risks and uncertainties, and greater flexibility when determining future levels of council tax as part of the MTFS.

7 LEGAL IMPLICATIONS

7.1 None directly arising from this report.

8 CONSULTATION

8.1 The Council has, for a number of years, already met the more challenging closure timetable now in place requiring publication of the statement of accounts by the end of May. Prompt accounts closure and successful external audit are a result of robust financial management and reporting procedures which enable the closedown process to be managed and delivered with the full co-operation of all directorates.

9 ENVIRONMENT, HEALTH AND ECONOMIC IMPLICATIONS

9.1 None directly arising from this report.

10 EQUALITY AND DIVERSITY

10.1 None directly arising from this report.

11 SUMMARY AND RECOMMENDATIONS

11.1 The directorate overspends forecast earlier in the year reduced by year-end as a result of management action with a net overspend of £482k. This, however, was after using directorate reserves of £2.1m. A further £1m was drawn down from the investment reserve as part of the agreed budget strategy. As these reserves are one off sums, they will not be available to support the budget in future years and therefore it is imperative that agreed savings are delivered and budget pressures managed in 2019/20. Monitoring processes are being enhanced to focus on the achievement of savings which have been agreed by Council.

11.2 Council balances are in line with those envisaged at Budget Council. In view of the significant issues and uncertainties facing the Council, Members are recommended to retain all balances pending fuller consideration and assessment after the first revenue monitor, at the MTFS review in the Autumn.

Nigel Broadbent
Head of Finance

Date: 3rd May 2019

FOR FURTHER INFORMATION ON THIS REPORT CONTACT: Alan Goodwin

Telephone: 3506 e-mail address: alan.goodwin@calderdale.gov.uk

DOCUMENTS USED IN THE PREPARATION OF THE REPORT:

Financial ledger. Closedown workbooks.