



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

# Finance, Economic Development and Corporate Services Overview and Scrutiny Committee

16 July 2019

**Report of:** Councillor Adam Stokes,  
Cabinet Member for Finance



## Outturn Position Report 2018/19

This report provides the OSC with the detail of the Council's outturn position for the financial year 2018/19. The report covers the following areas:

- General Fund Revenue Budget (Section 4)
- Housing Revenue Account Budget (Section 5)
- Capital Programmes – General Fund and HRA (Section 6)

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Corporate Priority:	Decision type:	Wards:
<b>Administrative</b>	<b>Administrative</b>	<b>All Wards</b>

<b>Reviewed by:</b>	Gill Goddard – Senior Financial Accountant	1 July 2019
<b>Approved by:</b>	Richard Wyles, Strategic Director of Finance	2 July 2019
<b>Signed off by:</b>	Councillor Adam Stokes, Cabinet Member for Finance	2 July 2019

### Recommendations to the decision maker

The OSC is asked to:

1. Review the Revenue and Capital Outturn report and associated appendices for 2018/19.
2. Note the budget carry forwards shown at paragraph 4.5 and reserve movements shown at section 7 in the report.

- 3. Note the Capital slippages from the 2018/19 Capital Programme as detailed in the report and appendix C & E.**
- 4. Note the change to the Regeneration reserve policy to include financing any feasibility work costs in respect of property acquisition and development.**

## **1 The Background to the Report**

1.1 The purpose of this report is to present the Council's Revenue and Capital Outturn 2018/19 of both the General Fund and Housing Revenue Account. It covers:

- Revenue outturn 2018/19
- Capital outturn 2018/19
- Commentary on the revenue and capital outturn
- Commentary and review of reserves and a reserves statement

## **2 Consultation and Feedback Received, Including Overview and Scrutiny**

2.1 During the year regular budget monitoring and management reports have been presented at the Growth Overview and Scrutiny Committee and members have considered and debated the variances during this period. This outturn report is the culmination of the in-year reports. The outturn report was presented to Governance and Audit Committee on 21 June 2019. The Committee considered the report and approved:

- the Revenue and Capital Outturn report and associated appendices for 2018/19.
- the budget carry forwards shown at paragraph 4.5 and reserve movements shown at section 7 in the report.
- the Capital slippages from the 2018/19 Capital Programme as detailed in the report and appendix C & E.
- the change to the Regeneration reserve policy to include financing any feasibility work costs up to £150k in each financial year in respect of property acquisition and development.
- the creation of a specific reserve of £100k to fund the crowd funding initiative from the year end working balance.

The outturn report was presented to Cabinet on 9<sup>th</sup> July 2019. The OSC will be updated with any comments arising from the meeting.

## **3 General Fund Revenue Budget**

3.1 The 2018/19 original general revenue budget approved by Council on 1 March 2018 was set at £17.161m. Subsequent approved amendments to the budget framework have been included and these are summarised below. These changes increased the 2018/19 budget to £19.502m. For the purposes of the outturn variance analysis, the budget carry forwards have been removed from this which reduces the budget for comparative purposes to £18.798m.

## 3.2

Table 1

Date of Approval	Revenue Budget amendment	£'000
June 2018	2017/18 Budget Carry forward and set asides	694
July 2018	Environment SK	40
September 2018	Deliver SK	100
November 2018	One off costs arising from the Senior Management Restructure*	866
June 2018	Stamford Arts Centre Bequest	33
January 2019	Allocation of Business Rates Income	459
February 2019	Intelligent Automation project	150

\*This is the one-off cost incurred following the implementation of the new senior management arrangements. The full year saving of the new structure will be £300k for the General Fund and the payback period is 2 years and 10 months.

- 3.3 This report provides details of the Council's outturn position for the financial year 2018/19. In order to comply with International Financial Reporting Standards a number of technical accounting entries are required to be made which can create significant variances. The report attempts to ensure that, through explanation and presentation, the final account figures can be reconciled back to the original budget set by Council.
- 3.4 **General Fund Revenue Account** 2018/19 details can be found at table 2 and the variance narrative is provided at section 4.4 and at Appendix A.
- 3.5 **Housing Revenue Account (HRA)** details can be found at table 7 and the variance narrative is provided at section 5.3 and at Appendix B.
- 3.6 **General Fund Capital Programme** has an outturn of £16.05m compared with an updated budget of £25.478m. Details of the full programme and additional slippage are contained within paragraph 6.3 of the report and at Appendix C and Appendix D.
- 3.7 The **Housing Investment Programme (HIP)** shows an outturn position and updated slippage of £4.949m compared to a revised budget of £10.004m. Details of the full programme and additional slippage are contained within section 6.8 of the report and at Appendix E and Appendix F.
- 3.8 Commentary and review of reserves and a reserves statement at Appendix G and H.

## 4 GENERAL FUND (REVENUE) VARIANCE ANALYSIS

- 4.1 The forecast outturn position as at Quarter 3 was reported to Growth Overview and Scrutiny on 13 February 2019. At this time, the forecast variance on the total cost of provision of service was £688k. The outturn position is £686k and

is shown at line 12 in table 2 below. The details of significant variances are provided below in section 4.4. It is important to note that Council approved on 31 January 2019 the use of the business rates gain (arising from the 100% pilot scheme) to fund towards the balancing of the 2018/19 financial year.

- 4.2 The Directorate headings showing budget and outturn are detailed in Table 2 below:

Table 2

	<b>Directorate</b>	<b>2018/19 Original Budget £'000</b>	<b>2018/19 Revised Budget (less Budget carry forwards) £'000</b>	<b>2018/19 Draft Outturn £'000</b>	<b>2018/19 Variance to revised budget £'000</b>
1	Commercial and Operational	6,296	6,398	6,554	156
2	Growth	6,544	6,810	6,878	68
3	Resources	4,321	5,590	5,324	(266)
4	Removal of Accounting Adjustments			1,346	1,346
5	<b>Net Cost of Services Total</b>	<b>17,161</b>	<b>18,798</b>	<b>20,102</b>	<b>1,304</b>
6	Interest and Investment Income & Interest Payable	(198)	(198)	(327)	(129)
7	Minimum Revenue Provision	247	247	154	(93)
8	Depreciation	(3,400)	(3,400)	(4,099)	(699)
9	Local Council Tax Support Grant	22	22	22	0
10	Reserves	(2,206)	(3,524)	(3,237)	287
11	Grants	(151)	(276)	(260)	16
12	<b>Total Cost of Provision of Service</b>	<b>11,475</b>	<b>11,669</b>	<b>12,355</b>	<b>686</b>
13	Business Rates	(4,400)	(4,400)	(4,423)	(23)

	Directorate	2018/19 Original Budget £'000	2018/19 Revised Budget (less Budget carry forwards) £'000	2018/19 Draft Outturn £'000	2018/19 Variance to revised budget £'000
14	Business Rates Growth and s31 grants	(250)	(517)	(2,430)	(1,913)
15	Collection Fund (Surplus)/Deficit	321	321	321	0
16	Transfer to Regeneration Reserve			713	713
17	Transfer to Reserves			610	610
18	Council Tax	(7,146)	(7,146)	(7,146)	0
19	Working balance transfer		73	0	(73)
20	<b>Total funding</b>	<b>(11,475)</b>	<b>(11,669)</b>	<b>(12,355)</b>	<b>(686)</b>
21	<b>Total Variance (to)/from reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Notes for table 2:

- Line 4 – removal of accounting entries specifically IAS19 (employee pension), Revenue Expenditure Financed from Capital under Statute (REFCUS), asset revaluations and capital grants received. These are detailed in the table below

Table 3

Removal of Accounting Adjustments	£'000
IAS 19 (employee pension)	(1,086)
REFCUS	577
Asset revaluations	(352)
Capital Grants	2,207
<b>Total</b>	<b>1,346</b>

- Line 5 – this line shows the net overall expenditure at cost centre level
- Line 6 - Additional interest income has been earned through investment of increased cash balances and interest rate changes.

- Line 8 - this is a non-cash item to reflect the financing costs of holding assets
- Lines 16-17 – These adjustments were in accordance with Council approval on 31 January 2019.

### **Earmarked Reserves**

- 4.3 The table below details the projected movements to specific reserves as part of the outturn analysis. These movements are in respect of grants and contributions that are required to fund specific expenditure items in the 2019/20 financial year.

Table 4

<b>Reserve/Grant Heading</b>	<b>Contribution to Reserve £'000</b>
Specific Grants:	
Flexible Homelessness Support Grant	178
Individual Electoral Registration	5
New Burdens Grant	30
MHCLG EU Exit Preparation	17
Rogue Landlord funding	22
MHCLG Controlling Migration	31
MHCLG transparency code new burdens	8
Urban Gym-Grantham Rotary	20
Welfare Reform	100
<b>Total</b>	<b>411</b>

### **Summary of Significant Variances**

- 4.4 In order to understand outturn at service level which is shown in Table 2 (lines 1 – 3) the following commentary provides a summary of the significant variances by Directorate.

Table 5

<b>Variations &gt; £20k by Directorate</b>	<b>Variance £'000</b>	<b>One Off or Recurring</b>
<b>Commercial and Operational</b>		
Fuel – The average national increase in fuel prices has been above the 5% level that was budgeted for. Additional provision has been factored in for future years. The overspend is funded from earmarked reserves as shown in Appendix A.	80	Additional resources allocated 2019/20
Vehicle Repairs - An increase in the number of external repairs due to the capacity of the workshop and specialist nature of the works required. During 2019/20 a review of the workshop will be undertaken to determine the future resource implications	59	Additional resources allocated 2019/20
Flood Prevention - Allocated funding to undertake additional projects during 2018/19 was no longer required since the programme of works has been finalised.	(48)	One Off
Private Sector Housing – There are a number of income and expenditure items under this service heading that fall within the category of REFCUS (revenue expenditure funded from capital under statute). These items specifically relate to discretionary facilities grants and housing assistance grants, these have been removed at line 4 at table 2.	(615)	One Off
Private Sector Housing – Specific costs incurred under this heading related to capitalisation of salaries	(61)	One Off
Environmental Services - A reduction in the use of contractors has resulted in a saving against the budget.	(30)	One Off
Big Clean - The second permanent Big Clean crew were not recruited until June which has resulted in an underspend. However, all of the outcomes were delivered during the financial year therefore this represents an efficiency saving	(40)	One Off
Street Scene – Additional income has been received for amenities collection service which was not anticipated.	(36)	Recurring
Green Waste Collection –Additional income has been received, with 28,074 households renewing their subscription for 2018/19 and 914 new households joining the service throughout the year.	(48)	This increase has been built in 2019/20
Accident repairs costs have been incurred during the year, these costs will be funded from the insurance reserve as shown in Appendix A.	28	One Off
Waste and Recycling – There is an overspend on wages due to staff absence with posts needing to be covered to meet health and safety requirements and an overspend on pensions due to auto-enrolment, the pension costs of these posts have been budgeted in 2019/20	53	One Off
Pension costs for accounting entry IAS19 are included within the Directorate, these have been removed at line 4 at table 2.	897	One Off
<b>Total</b>	<b>239</b>	

<b>Variations &gt; £20k by Directorate</b>	<b>Variance £'000</b>	<b>One Off or Recurring</b>
<b>Growth</b>		
Income from Commercial Properties – New opportunities are being actively pursued, however no further investment purchases have been made during the year therefore the income budget has not been met.	93	The budget has been decreased in 2019/20
Cinema Development - The updated timeline of this scheme has resulted in the rental income from the retail units not being achieved.	30	The budget has been decreased in 2019/20
Planning and Pre-planning fees – this income has increased due to an increase in the number of planning applications received during the year	(99)	One Off
Planning Policy – the district's local plan inspection was during May 2019 which resulted in an underspend which is offset by a reduced reserve movement	(79)	One Off
Arts Centres – The budgeted level of income from room hire was not achieved in 2018/19 due to a lower level of bookings than anticipated.	31	One Off
Christmas Lights – Additional investment in Grantham town centre lights. This will be funded from the Special Expense Area meaning that this is funded from the precept collected for the special expense area of Grantham.	35	One Off
Council Offices - Loss of rental income due to a tenant not renewing their lease.	43	The budget has been decreased in 2019/20
Council Offices - In year changes to lease arrangement at The Maltings has resulted in a saving against the budget.	(26)	The budget has been decreased in 2019/20
Car Parks - A change in enforcement hours has resulted in a reduction in expenditure	(26)	One Off
Car Parks - The budgeted increase in car parking income is currently not being achieved. There has been a review of car parks that has resulted in some additional capacity being created during the year although there has been no material increase in income. The income budget in 2019/20 has been reduced.	283	The budget has been decreased in 2019/20
Leisure Centres - Additional in year equipment and repairs costs at Deepings, Stamford and Grantham has resulted in an over spend	40	One Off
Utilities – Additional pricing increases during the winter months has increased costs for electricity in 2018/19	33	Recurring – potentially a budget pressure for 2019/20

<b>Variations &gt; £20k by Directorate</b>	<b>Variance £'000</b>	<b>One Off or Recurring</b>
Homelessness - There has been a significant rise in demand for emergency accommodation resulting in an over spend. Further review work is currently being undertaken to mitigate future costs.	55	One Off
Pension costs for accounting entry IAS19 are included within the Directorate These have been removed at line 4 at table 2.	626	One Off
Accounting entries for asset revaluations are included within the Directorate. These have been removed at line 4 at table 2.	362	One Off
Accounting entries for capital grants received in 2018/19 are included within the Directorate, these have been removed at line 4 at table 1.	(2,207)	One Off
Shop Front Schemes - There are a number of income and expenditure items under this service heading that fall within the category of REFCUS (revenue expenditure funded from capital under statute). These have been removed at line 4 at table 2.	38	One Off
Depreciation – Accounting entries for additional depreciation is included within the Directorate. This has been removed at line 8.	756	One Off
<b>Total</b>	138	
<b>Resources</b>		
Income generation from shared service opportunities – a number of planning policy officers are seconded to Rutland CC; additional opportunities to share have been discounted resulting in the income target not being met.	113	One Off
Procurement – new initiatives have been implemented but due to the timelines involved there has been a delay in the achievement of these savings and these are now expected to be realised in 2019/20	180	One Off
Service reviews – the review programme will be completed in 2019/20	50	One Off
Business Rates – Reassessment costs have been incurred during 2018/19 which will be offset by future additional NDR income	46	One Off
Corporate consultancy – these savings were not achieved during 2018/19.	30	One Off
Agency – the level of vacancies in key posts throughout the year has meant that the saving will not be delivered.	75	One Off
‘White space’ initiative – this initiative has not been implemented due to alternative options being reviewed which has resulted in the budget savings	(70)	One Off
Utilities –base budgets had already been reduced in line with costs prior to this bid being submitted therefore these savings are not deliverable	50	One Off
Removal of vacant posts – savings from the removal of vacant posts are reflected in service budgets.	45	One Off

<b>Variations &gt; £20k by Directorate</b>	<b>Variance £'000</b>	<b>One Off or Recurring</b>
Corporate overtime and call out payments – the saving built into the budget has not been achieved due to the overtime and call out requirements of frontline service areas	63	One Off
Subscriptions – a target £50k budget reduction was set for 2018/19, £25k has been achieved to date but subscriptions will continue to be reviewed as they come due for renewal.	25	One Off
Administration subsidy grant in respect of benefits administration and council tax administration - an additional grant allocation has been received this year	(111)	One Off
Grants have been received in 2018/19 for Universal Credit support and resource management. This was not budgeted income.	(142)	One Off
The Council has entered into a collaborative partnership across Lincolnshire to undertake a study into options for sustainable housing led growth.	15	One Off
Staffing budgets - In year forecast savings of vacant posts which have been offset by an increase in agency and recruitment costs	57	One Off
System Costs – There have been additional costs incurred in respect of the upgrading of the HR and Payroll system. This upgrade will deliver longer term licence cost savings	79	One Off
ICT – Corporate licence fee which was not budgeted for during 2018/19	65	One Off
Audit - Changes to planned audit days has resulted in a forecast saving.	(32)	The budget has been decreased in 2019/20
HRA Recharges – Increase in recharge base following realignment of costs	(274)	Recurring
Pension costs for accounting entry IAS19 are included within the Directorate These have been removed at line 4	(437)	One Off
<b>Total</b>	(173)	
<b>Non-directorate variances</b>		
Interest and Investment income – additional income has been received as investment balances are higher than originally anticipated.	(77)	One Off
Interest payable and Minimum Revenue Provision – no additional external borrowing has been undertaken during the financial year	(145)	One Off
Accounting Entries totalling £1.346m are within the directorates and removed at line 4 as they are non-cash items	1,346	One Off
Additional depreciation totalling £699k is within the directorates and removed at line 8 as this is a non-cash item	(699)	One Off
Reduction in the use of reserves and grants in 2018/19	303	One Off

#### 4.5 CARRY FORWARDS

The following table details the budget carry forwards into 2019/20 to fund the following specific projects:

Table 6

<b>PROJECT</b>	<b>BUDGET CARRY FORWARD £'000</b>
Funding of Community Cleaning initiatives – budget underspend from 2018/19	25
Continued Food Waste trial costs – carry forward from 2017/18	45
Funding of Economic Development initiatives – business rates additional income	60
Funding of the District local plan – funded from specific reserve	91
Funding for Council priority Deliver SK – funded from local priorities reserve	59
Funding for roof repairs at Broad Street Stamford property – additional business rates income	25
Funding of remedial works identified in closed burial grounds – additional business rates income	23
Funding of remedial asbestos works identified – additional business rates income	50
Funding of a feasibility study for Red Lion Square – additional business rates income	12
Funding for Public Realm project – funded from Local Priorities Reserve	47
Funding for Transformation project – funded from Invest to Save reserve	150
Funding for One SK – funded from Local Priorities Reserve	59
Funding for ICT server infrastructure feasibility – funded from Local Priorities Reserve	58
<b>Total</b>	<b>704</b>

## 5 HOUSING REVENUE ACCOUNT (HRA) VARIANCE ANALYSIS

- 5.1 The Housing Revenue Account (HRA) is a 'ring fenced' account and relates to the Council's Landlord functions. Revenue raised by rents and service charges must be sufficient to match expenditure. A summary table is provided below and in detail at Appendix B.
- 5.2 The original budget for 2018/19 was set at a surplus for the year of £6.668m against an actual surplus of £4.301m. The surplus is transferred to the reserves in order to provide additional internal funding for the HRA capital programme.

Table 7

Housing Revenue Account	2018/19 Original Budget £'000	2018/19 Adjusted Budget £'000	2018/19 Draft Outturn £'000	2018/19 Variance (Adjusted) £'000
Income	(25,439)	(25,439)	(25,254)	185
Expenditure	16,183	16,345	19,296	2,951
<b>Net Cost of Service</b>	<b>(9,256)</b>	<b>(9,094)</b>	<b>(5,958)</b>	<b>3,136</b>
Interest Payable and Similar Charges	2,816	2,816	2,793	(23)
Interest and Investment Income	(228)	(228)	(384)	(156)
Other accounting adjustments			(752)	(752)
<b>DEFICIT (SURPLUS) FOR THE YEAR ON THE HRA</b>	<b>(6,668)</b>	<b>(6,506)</b>	<b>(4,301)</b>	<b>2,205</b>

- 5.3 As documented at Appendix B the reduced surplus for 2018/19 is impacted by a number of both positive and negative variances. The most significant variances are as follows:

- The income expected from housing rents is £253k below budget due to write-offs of £115k and the void rate being higher than expected. There is also loss of rents through a high volume of right to buy sales. This is partly offset by additional income of £45k from services and facilities charges.

There is a total overspend of £949k on the repairs and maintenance. This includes a pension cost of £517k, however this is reversed out of the HRA through the statement of movement. Support recharges were £188k more than expected and increases in material costs (£113k), reactive works (£345k) and the workforce efficiency (£94k) not being achieved due to vacancies being lower than anticipated, also contributed. These were offset by increased income from rechargeable works (£97k) and planned maintenance underspend of £153k.

- The workforce efficiency of (£41k) has also not been achieved on the Supervision and Management budget due to vacant posts being lower than anticipated. In addition to this, legal costs have increased by £39k due to more complex repossession cases. Support recharges were £363k more than expected and a pension cost of £226k is included, however this is reversed out of the HRA through the statement of movement.
- The HRA share of corporate and democratic costs has not increased as expected so is under spent by £116k. Recharges from the General Fund have increased overall as additional services have been provided by Transformation, Communications, Customer Services, and new IT systems have been implemented across the Council.
- Capital costs of £1.469m have occurred, this is a combination of £2.549m revaluation gains and £4.018m expenditure on non-enhancing capital (expenditure incurred through the HRA capital programme, in respect of activities to maintain the decent homes standard within the housing stock).

## 6 Capital Programmes

- 6.1 The original capital budget for 2018/19 was set at £14.839m. The budget is revised during the year as new projects are identified. The updated position of £25.478m is shown in the 'Adjusted Budget' column in table 10 below. A summary of the budget changes that have been approved during the year are as follows:

Table 8

<b>Approval Date</b>	<b>Capital Budget Adjustment</b>	<b>£'000</b>
June 2018	Budget carry forwards	528
July 2018	Grounds Maintenance Vehicles	450
July 2018	St Peter's Hill Public Realm	1,661
Sept 2018	Property Acquisition	8,000

- 6.2 The general fund capital outturn position for 2018/19 is summarised in table 10 below. The capital budget has an underspend of £9.428m which has reduced the requirement to use reserves to £4.655m for the financial year.
- 6.3 The following additional carry forward amounts (further to the amounts previously approved by Council) have been identified for inclusion into the 2019/20 General Fund capital programme

Table 9

<b>Scheme</b>	<b>Budget Carry Forward £'000</b>
St Peter's Hill Development	1,736
Public Realm	1,015
Gravitas Housing Scheme	280
Tourism Signage	50
Vehicle Electric Charging Points	39
Equilogic Server Based Storage	20
Power Supply Replacement	15
Pool Vehicles	12
<b>Total</b>	<b>3,167</b>

- 6.4 A detailed general fund capital monitoring statement is attached at Appendix D which provides details of the progress of the schemes. The full details of the financing of the programme is attached at Appendix D.

Table 10

<b>General Fund Capital Programme</b>	<b>2018/19 Original Budget £000</b>	<b>2018/19 Adjusted Budget £000</b>	<b>2018/19 Draft Outturn £000</b>	<b>2018/19 Variance (Adjusted) £000</b>
<b>EXPENDITURE SUMMARY</b>				
Commercial and Operations	835	1,585	1,330	(255)
Growth	13,879	23,726	14,567	(9,159)
Resources	125	167	153	(14)
	<b>14,839</b>	<b>25,478</b>	<b>16,050</b>	<b>(9,428)</b>
<b>Financing Analysis</b>				
Prudential Borrowing	(2,000)	(10,000)	(8,052)	1,948
Use of Reserves	(10,917)	(13,513)	(4,655)	8,858
Capital Receipts	(788)	(788)	(1,180)	(392)
Capital Grants and Contributions	(1,134)	(1,177)	(2,163)	(986)
	<b>(14,839)</b>	<b>(25,478)</b>	<b>(16,050)</b>	<b>9,428</b>
<b>NET EXPENDITURE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 6.5 As documented in Appendix D there are a number of both positive and negative variances which form the £9.428m underspend. The most significant variances are as follows:

- The balance of the commercial investments acquisition budget has not been spent during this financial year resulting in an underspend of £3.9m

- There is a £1.680m underspend on the Wherry's Lane Bourne housing project. The project commenced in October 2018 which is a 12-month programme. £1.4m of underspend has been incorporated into 2019/20 budget, with the balance of £280k proposed to be carried forward.
- Works on the cinema have progressed during the year, with the building shell being completed. Fit-out will continue into 2019/20 requiring the remaining budget of £1.736m to be carried forward
- Initial works have commenced on the Public Realm project, but completion is forecast to be June 2019, resulting in an £1.015m carry forward of this budget into next year.
- The Council has received £797k of disabled facilities grant funding which is underspent by £479k. Mandatory DFGs require a referral from Lincolnshire County Council Occupational Therapy Team.

6.6 The following table summarises the HRA capital outturn position as at 31 March 2019. The capital budget was set at £10.004m and currently has an underspend of £4.949m which has reduced the in-year transfer from reserves.

6.7 This underspend mainly relates to the property development budget spend which is dependent upon sites being identified for investment. £4.130m budget and associated funding has been slipped into 2019/20 for this.

6.8 The following additional carry forward (further to the amounts previously approved by Council) has been identified for inclusion into the 2019/20 Housing Revenue Account capital programme.

- Repairs Vehicles £90k

6.9 A detailed HRA capital monitoring statement is attached at Appendix E which provides details of the 2018/19 Outturn position of the schemes. The full details of the financing of the programme is attached at Appendix F.

Table 11

<b>HRA Capital Programme</b>	<b>2018/19 Original Budget £000</b>	<b>2018/189 Adjusted Budget £000</b>	<b>2018/19 Draft Outturn £000</b>	<b>2018/19 Variance (Adjusted) £000</b>
<b>HRA Investment Programme</b>				
Stock Improvements & New Build Programme	9,680	9,680	4,765	(4,915)
Purchase of Vehicles	324	324	184	(140)
	<b>10,004</b>	<b>10,004</b>	<b>4,949</b>	<b>(5,055)</b>
<b>Financing Analysis</b>				
Major Repairs Reserve	(4,214)	(4,214)	(4,202)	12
Property Development Reserve	(5,000)	(5,000)	(277)	4,723
HRA Capital Receipts	(790)	(790)	(470)	320
	<b>(10,004)</b>	<b>(10,004)</b>	<b>(4,949)</b>	<b>5,055</b>
<b>NET EXPENDITURE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## **7 COMMENTARY ON BALANCES AND RESERVES**

- 7.1 An integral element of the closedown procedure is to undertake a review of the usage and levels of the Council's reserves and balances. The financial statements reflect the proposed use of these and specific details of the significant balances and reserves are set out below and detailed at Appendix G & H.

The overall General Fund reserves position is a variance of £7.432m when compared with the forecast position which was presented to Council in March 2019. This is largely due to timing differences with the delivery of the General Fund capital programme which has been referenced at table 7 above.

### **Discretionary Reserves £13.694m (lines 1-16)**

- 7.2 These reserves have been established to financially support the delivery of the Council's Corporate Strategy including both revenue and capital projects. In response to the Corporate Plan there is an ambition to focus funding towards initiatives that accelerate economic growth, e.g. visitor economy, tourism, heritage etc.

- 7.3 The Local Priorities Reserve (line 10) has received New Homes Bonus of £2.086m and allocations have been utilised as follows:

- £631k has funded revenue costs
- £1.416m has been utilised as capital financing
- £500k transferred to the Regeneration reserve
- £780k transferred to the St Peter's Hill Reserve to complete the Cinema project.

This leaves a closing balance £9.680m.

- 7.4 ICT Investment Reserve (line 6) In accordance with the decision made by Council on 31 January 2019 this reserve has been increased to £320k. This reserve will be utilised in the short to medium term to finance strategic ICT infrastructure improvements.

- 7.5 Invest to Save Reserve (line 11) In accordance with the decision made by Council on 31 January 2019 this reserve has been increased to £1.00m. The primary purpose of the reserve is to 'pump prime' initiatives for projects that clearly demonstrate within a business case that cashable savings could be realised following a one-off injection of investment.

- 7.6 Housing Delivery Reserve (line 12) This reserve has been increased to £912k following the outturn of the remaining unspent grant received in respect of disabled facilities improvements. Proposals to utilise this reserve are currently being developed.

- 7.7 Property Maintenance Reserve (line 14) This reserve has been established with a balance of £110k. The primary purpose of this reserve is to provide in-

year funding to support unforeseen expenditure that may arise in respect of the Council's asset portfolio that would have a detrimental impact on the asset if not treated.

- 7.8 Regeneration Reserve £1.213m (line 15) In order to provide the available financing for the acquisition of key strategic assets, this reserve has been established with a balance of £1.213m. The Council will use a combination of both internal and external borrowing as required which will incur an MRP (minimum revenue provision) cost and possible interest costs (where external borrowing is undertaken). For 2019/20 £718k of this reserve has been committed to contribute towards the following costs associated with the strategic property acquisition in Stamford. These consist of £418k of operational costs and £300k of interest related to the borrowing costs.

Governance and Audit Committee approved that the use of this reserve is expanded to finance any feasibility costs that will arise as potential development opportunities are explored. This expenditure will be closely monitored and limited to £150k in each financial year.

- 7.9 Crowd Funding Reserve £100k - at the Rural and Communities OSC on 13 June 2019, members considered a report with respect to a crowdfunding initiative. The Committee recommended that a pilot scheme be introduced across the District and asked the Governance and Audit Committee to set a side £100k from year end balances to fund the pilot scheme. This was approved by the Governance and Audit Committee on 21 June 2019. The proposal would enable the Council to provide financial support to community projects utilising an online platform called Spacehive where community initiatives are advertised and promoted. The site is also backed by a number of national enterprises who provide additional funding to support community initiatives. The approach gives the Council the opportunity to fund initiatives that meet the Council's requirements. The Spacehive solution requires an annual subscription fee of £30k with the balance of the reserve being utilised to fund any projects the Council wishes to directly financially support. The initial subscription provides for both the online presence as well as kick-off meetings, project creator workshops, the verification of ideas and go-live support for projects. Spacehive also provide some on the ground training to those who are likely to be seeking funding to help them to make their applications as attractive as possible. As this reserve is to be set up in the current financial year it is not shown in the reserves appendix information which shows reserves as at 31 March 2019.

**Governance Reserves £3.541m (lines 17-23)**

- 7.10 These reserves are maintained to mitigate risk, satisfy statutory and grant awarding bodies requirements and support prudent financial management
- 7.11 The Insurance Reserve (£308k line 17) provides cover to meet unforeseen costs relating to insurance claims over and above the provisions made in year

as part of managing the 'in house risk' with an increased self-insured strategy. During the year £28K has been used to fund claims and insurance premium.

7.12 The Council holds two Pension Reserves (£1.432m lines 18, 19). The current employees reserve provides for potential capital costs of any future early retirements and also helps to protect the Council from large changes in Council Tax resulting from unanticipated rises in the employer's contribution rate following future triennial valuations. The level of the reserve is being maintained in order to fund the pension payment reducing the Council contribution rate from 21.1% to 16.5%. This decision has had a positive impact on the revenue budgets for the same period.

7.13 Business Rates and Volatility Reserve £1.507m (line 20) To ensure there is minimum financial disruption to the funding of the General Fund in respect of Business Rates income, the Council has established a reserve to smooth out fluctuations in year to year funding. In accordance with the approved budget framework for 2018/19 £397k has been utilised to offset the business rate deficit that was brought forward from the previous year.

7.14 Special Expense Area reserves £214k (line 23) The Grantham SEA has been utilised by £85k to fund the Wyndham Park improvements. This reserve has been replenished by £39k leaving a balance of £214k. This is broken down as:

- Bourne SEA £17k
- Grantham SEA £107k
- Langtoft SEA £3k
- Stamford SEA £87k

**General Fund working balance £2.835m (line 26)**

7.15 The purpose of this working balance is to ensure there is sufficient financial resource available in order to meet unforeseen events during the course of the financial year.

The proposed minimum balance is set at a level that reflects the financial risk the Council is currently exposed to. In previous years the target has been £1m, but a higher actual balance is being maintained and it is proposed to retain the working balance at a minimum of £2.5m due to the anticipated financial volatility over the medium term including the uncertainty of future funding from Government.

**General Fund Capital Reserves £6.339m (line 33)**

7.16 LAMS reserve £18k (line 29) - The Local Authority Mortgage Scheme (LAMS) is no longer in operation for all authorities; however the Council continues to receive investment interest that is derived from the investment that was placed to support the scheme. The remaining balance of £18k will be retained until the final mortgage maturity of August 2020. At the end of the investment

period the balance will be reviewed in relation to the outstanding guarantee commitment and excess funds returned to balances.

- 7.17 St Peter's Hill Development £1.959m (line 30) - This reserve is utilised to fund the Cinema project and the adjoining public realm project. During the year, £1.673m has been allocated to the reserve and £2.321m has been used to fund the 2018/19 expenditure. The remaining balance will be fully utilised to fund the final stages of the project.
- 7.18 General Fund - Capital Reserve - £1.775m (line 31) - The General Fund capital reserve is used to assist with the funding of the capital programme. During the year £732K was used to fund the acquisition of vehicles replacement programme but the reserve was credited with the maturity income arising from the LAMS investment.
- 7.19 Useable Capital Receipts Reserve £2.587m (line 32) - This reserve is one of the sources of funding the General Fund capital programme. During the year the Council has received £866k from vehicle sales. The remaining expenditure of the capital programme has been financed from this reserve in lieu of borrowing.

#### **HRA Reserves £38.719m Line 12**

- 7.20 HRA working balance £2.007m (line 5) - This balance serves the same purpose as the General Fund working balance in that it is established to respond to unforeseen financial events that occur during the financial year.
- 7.21 Capital Receipts Reserve (HRA) £6.659m (line 7) - The Council has established a capital receipts reserve where the 'Right to Buy' sale receipts are allocated. During the year £470k has been used to contribute towards the new build programme and receipts of £3.798m have been received from HRA sales including 64 housing stock. This reserve will continue to be utilised to contribute to the provision of affordable housing and the provision of additional Council housing stock.
- 7.22 Loan Repayment Reserve (HRA) £1.350m (line 8) – In accordance with Council approval on 31 March 2018 £15.00m has been allocated from this reserve to the Property Development Reserve (line 10) to fund the property development programme. As at 31 March 2019 £277k has been utilised.
- 7.23 Major Repairs Reserve (HRA) £12.658m (line 9) - This reserve has been credited with £6.532m to fund its capital expenditure and been charged £4.202m to fund capital items for the 2018/19 programme. This will continue to be the primary financing for the HRA Capital Programme.

#### **8.0 LOOKING AHEAD**

- 8.1 The financial climate continues to be challenging but the Council has robust plans to deliver the ambitions set out in the Corporate Strategy and lead the Council to financial autonomy. Members will be aware that the innovation and

commercial agenda carries a level of risk which is inevitable when introducing a transformation ambition. Therefore, it is important that members have timely and accurate financial information which will provide forecasts and variance narrative to assist members to undertake the appropriate scrutiny and guidance during the remainder of the financial year.

- 8.2 The level of reserves in order to provide financial resilience and support to deliver the Council's ambitions are reviewed regularly in order to ensure the Council is protected from financial volatility in the medium term. The Medium Term Financial Plan reviewed annually will include reserves as part of the financial planning framework. The full details of reserves are shown in Appendices G & H.

## **9 Reasons for the Recommendations(s)**

- 9.1 Finance, Economic Development and Corporate Services OSC is asked to review the financial outturn for 2018/19 and make any specific observations or recommendations that can be incorporated into the medium term financial plan.

## **10 Financial Implications**

- 10.1 These are included in the report

**Financial Implications reviewed by: Richard Wyles, Strategic Director of Finance**

## **11 Legal and Governance Implications**

Governance and Audit Committee considered and approved the outturn report at their meeting on 21 June 2019 in accordance with the terms of reference of the Committee.

**Legal Implications reviewed by: Shahin Ismail, Head of Legal**

## **12 Equality and Safeguarding Implications**

- 12.1 Not applicable

## **13 Risk and Mitigation**

- 13.1 Risk has been considered as part of this report and no specific high risks have been identified.

## **14 Community Safety Implications**

- 14.1 Not applicable

## **15 Other Implications (where significant)**

- 15.1 Not applicable

## **16 Background Papers**

- 16.1 Determination of Budget 2018/19 and indicative budgets to 20/21 – General Fund, Housing Revenue Account and associated Capital Programmes Report  
<http://moderngov.southkesteven.gov.uk/documents/s19700/CFM453Budget%20COUNCIL%20V2.pdf>
- Outturn Position 2017/18 report  
<http://moderngov.southkesteven.gov.uk/documents/s20657/CFM459%20outturn%20v6%20new%20template.pdf>
- Financial Management Report for 2018/19 – April – June (Quarter 1) Monitoring Information Report  
<http://moderngovsvr:8080/documents/b6222/Q1%20Financial%20outturn%20201819%2025th-Jul-2018%2010.00%20Growth%20Overview%20and%20Scrutiny%20Committee.pdf?T=9>
- Quarter 2 Financial Monitoring Report 2018/19  
<http://moderngovsvr:8080/documents/s21783/CFM478%20Budget%20Monitoring%20Qtr2%20Final%2020.11.18.pdf>
- Quarter 3 Financial Monitoring Report 2018/19  
<http://moderngov.southkesteven.gov.uk/documents/s22244/Quarter%203%20Financial%20Monitoring%20Report%202018-19.pdf>

## 17 Appendices

- 17.1 Appendix A – General Fund Summary – Outturn 2018/19  
 Appendix B – HRA – Outturn 2018/19  
 Appendix C – General Fund Capital Programme Outturn 2018/19  
 Appendix D – General Fund Capital Programme Financing  
 Appendix E – HRA Capital Programme -Outturn 2018/19  
 Appendix F – HRA Capital Financing  
 Appendix G – General Fund Reserves  
 Appendix H – HRA Reserves

<b>Report Timeline:</b>	Date of Publication on Forward Plan (if required)	Not required
	Previously Considered by: Growth Overview and Scrutiny Committee	13 February 2019
	Decision date	21 June 2019