NORTH DEVON COUNCIL

COUNCIL: 24TH JULY 2019

PERFORMANCE AND FINANCIAL MANAGEMENT QUARTER 4 OF 2018/19

RECOMMENDATION OF THE POLICY DEVELOPMENT COMMITTEE HELD ON 20TH JUNE 2019

MINUTE 3: PERFORMANCE AND FINANCIAL MANAGEMENT QUARTER 4 OF 2018/19

The Committee considered a report to the Strategy and Resources Committee on 3rd June 2019 by the Head of Resources together with a minute extract (circulated previously) regarding the Performance and Financial Management Quarter 4 of 2018/19.

The Head of Resources advised that the report had already been subject to consideration by the Strategy and Resources Committee on 3rd June 2019 and that it set out the financial performance for the 2018/19 year. He added that this final report as at 31st March 2019 was written in the context of the Corporate Plan under the Executive Structure. A short presentation in relation to the Council's current financial position would follow later in the agenda.

He highlighted the following points within the report to the Committee:

- The revenue budget for 2018/19 was approved at Council on 21 February 2018 at £12.220m and as at 31 December 2018, the Council was reporting a net deficit of £0.019m against the budget.
- The last quarter of the financial year had seen some favourable variances since the last reported position; additional income through the one-off pilot year for 100% Business Rate Retention scheme and additional savings achieved throughout our staffing budgets.
- As at 31st March 2019it was pleasing to report that the final out turn position was a budget surplus of (£0.754m), which was an overall movement of (£0.773m) from the last forecast at quarter 3. The main reasons for the movement were shown in Appendix A – Variations in the Revenue Budget.
- For 2018/19 year the Council had built in £1.252m additional business rates income growth into the base budget over and above its 'baseline' funding. At 31st December 2018 the forecast position assumed additional income of £0.200m on top of the growth already factored into the budget and a further one-off additional income from the 100% Business Rates Retention Pilot for 2018/19 of £0.750m. The additional one-off income from the Pilot was placed into four earmarked reserves at the Quarter 3 position to fund future year projects.
- The original budget for 2018/19 included a forecast to achieve £0.200m worth of salary vacancy savings. The previous performance report at quarter 3 was

forecasting this saving would be exceeded by £0.025m this year; the final quarter of 2018/19 had actually resulted in further employee savings of £0.083m over and above the original target.

- The “Recycle more” service changes were introduced in June 2017; the take up of the new garden waste service exceeded the Council’s expectations; 2017/18 year saw a total sign up of 17,320 properties (the original estimated take up was 13,000 properties). This had grown further in 2018/19 with 18,134 properties signing up for the garden waste service.
- The implementation of the ‘Recycle more’ project had been a challenge and had resulted in some further additional costs for the year together with a further decline in the sale price of recyclable materials, which had meant the original savings target for the year not being achieved. We had also seen a significant reduction in the level of planning fee income of £0.138m due to a reduction in the larger applications received, which was in line with other authorities experiencing the same pressure. However, across the authority the Council had achieved a number of one off savings which had offset the additional costs and the reduced income; and the Council was now coming in under the original £12.220m budget set for the year.
- The 2018/19 overall revenue budget surplus of (£0.754m), of which a large element of the variance related to the above additional income from Business Rates; it was proposed to place £0.236m into the Collection Fund reserve. This earmarked reserve was created to deal with the timing impacts of the Collection Fund (Business Rates) which ensured the revenue budget was not unduly affected in the year the taxes were collected. Collection Fund deficits/surpluses were reversed out to bring the revenue account back to the budgeted figure for the year; the deficits/surpluses were recovered/distributed in the following financial years.
- The Collection Fund Reserve balance at 31st March 2019 was £1.017m; the balance was set aside to smooth the future year’s impacts on the budget from the Collection Fund balances; of which the current 40% deficit attributable to the authority was £0.353m. The reserve set aside would cover the contribution back to the Collection Fund over the next two financial years and left a residual balance of £0.664m to protect against any future volatility.
- The revenue budget surplus of (£0.754m), once the above contribution to the Collection Fund reserve of £0.236m had been made; left a residual surplus of (£0.518m). It was proposed to set aside that amount into the following earmarked reserves as follows:-

  - £0.050m into Strategic Contingency Reserve to fund projects coming through the Strategy and Resources Committee.
  - £0.075m into Improvement Reserve to fund future service delivery initiatives.
  - £0.100m into Digital Transformation Reserve to fund further system improvements to our ICT infrastructure.

- £0.100m into Repairs Fund Reserve to fund additional enhancements to Council assets (on top of the already planned maintenance).
- £0.193m into a number of smaller Earmarked Reserves to fund already identified specific projects in 2019/20 year.

- At the 31st March 2019 total external borrowing was £1.250m. The timing of any future borrowing was dependent on how the authority managed its treasury activity and due to current low interest rates and reduced returns on investments it was prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme. The actual cost of borrowing was £0.531m, a reduction of £0.013m on the budgeted cost of £0.544m. This cost included both the interest payable on external borrowing and the authority making a 'minimum revenue provision (MRP)' to set aside repaying the principal on the borrowing need.
- The recommended level of general fund balance was 5%-10% of the Council's net revenue budget (£0.611m to £1.222m). The actual general fund reserve at 31 March 2019 was £1.161m, which was a level of 9.5%.
- Earmarked Reserves for 2018/19 were set out in appendix B of the report and detailed the movement in Reserves and Balances and together with the movements to and from earmarked reserves in 2018/19.
- The Strategic Contingency Reserve was set out in appendix C of the report and detailed the Strategic Contingency Reserves movements and commitments.
- The 2018/19 Capital Programme was set out in appendix D of the report.
- The Budget and Financial Framework report to Executive 5th February 2018 outlined the Capital Programme for the 2018/19 financial year of £5.900m. Project under spends of £1.522m were brought forward from 2017/18 year and further variations of £1.204m, £0.993m, (£1.836m) and (£2.254m) were approved as part of the performance and financial management reports to Executive on 4th June 2018, 4th September 2018, 5th November 2018 and 4th February 2019 to produce a revised Capital Programme of £5.529m.
- Actual spend on the Capital Programme for 2018/19 financial year was £4.297m. The variance against the budget of £5.529m was (£1.232m); of which £1.234m would be carried forward into the 2019/20 Capital Programme to fund on-going projects.
- In order to pay for the £4.297m capital investment the Council funded that from £2.538m received from external sources in the form of grants and other assistance and used £1.759m of internal resources held specifically for capital projects.
- The 2019/20 to 2021/22 Capital Programme was attached as Appendix E – Capital Programme 2019/20 to 2021/22.
- Further investment of £0.122m had been identified for the period 2019/20 following three business cases submitted to the Project Appraisal Group (PAG) for:

- Property Maintenance at the Public House on the corner of Castle Street and the property at 16 Castle Street.
- Retaining wall at Watersmeet Car Park Lynton.
- Retaining wall at Cross Street Car Park Lynton.

· The revised Capital Programme for 2019/20 to 2021/22 taking into account the budget variations above was £29.941m and was broken down as follows:

  - 2019/20 £25.553m
  - 2020/21 £2.235m
  - 2021/22 £2.153m

· The Programme of £29.941m was funded by Capital Receipts / Borrowing (£13.058m) together with External Grants and Contributions (£14.508m) and Reserves (£2.375m).

· The timing and realisation of capital receipts could be impacted by events beyond the control of the Council and had been managed by cash flows for projects through internal borrowing.

· The Council also had authority to borrow from the Public Works Loan Board (PWLB) as outlined in the Treasury Management Annual Investment Strategy and the Council currently had external borrowing of £1.250m.

· Outlined the areas of Treasury Management, Debt Management and General Debtors.

· Explained the non-financial performance element to the Committee.

· Appendix F of the report detailed the status of service plan actions, which were currently on Covalent.

In response to a question regarding whether Selladoor Worldwide had already assumed the 10 year theatres operating contract, the Head of Resources confirmed that this was the case.

A number of Committee members confirmed that they had visited the Queen's Theatre in Barnstaple and that they were very impressed with the appointed company.

In response to a further question in relation to the allocation of unspent capital funds, the Head of Resources advised that the balance would be rolled forward into the next financial year. He added that at the end of each quarter balances could change and be transferred to/from the reserves, which ensured fluidity.

The Committee received a presentation by the Head of Resources regarding the Financial Context of the Council for 2019/20 onwards.

He outlined the following points to the Committee:

- Local Government Finance funding reforms, which included the Spending Review SR19 for the period 2020/21 and the potential of a 12 month delay owing to priorities within Parliament.
- Government Settlement and the change in funding by class of authority, which was a cumulative change between 2015/16 and 2019/20.
- Revenue Budget 2019/20 and how it was funded.
- Medium Term Financial Strategy (MTFS) 2019-2023 together with the assumed budget gaps from 2019/20 – 2022/23.
- Capital Programme, projects for which were detailed in appendix E of the report.
- Capital funding – borrowing costs for which business cases were approved for capital funding on 25th February, which increased the borrowing need for the Council by £1.7m.
- 10 Year Capital Strategy (2020-2029) together with example of how an asset was maximised following the purchase of a lease on Council owned land, which then allowed the Council to assume full control and management of the plot.
- The financial context, which emphasised the importance of Members understanding the Council's financial position when receiving reports and making decisions.

The Chairman thanked the Head of Resources for an excellent presentation, which fully captured the challenges faced by the Council.

In response to a number of questions, the Head of Resources advised the following:

- The figure for New Homes Bonus grant was calculated by multiplying the Council tax Base increase by the average band D property.
- The figures did take account of the newly built waste transfer facility, which was located adjacent to Brynsworthy and the savings that would be generated in fuel, officer time and round re-modelling as the vehicles no longer needed to travel to Deepmore. Once the full year figures were available further savings might be generated.
- The extension to the due date for action code P 01 16/17 in table D on page 42 of the report was to allow for the transfer of software on the planning system.
- Investment in technology was an essential part of the business transformation moving forward and gave officers greater resilience and capacity to deal with more complex issues.
- The Council had invested in the commercial aspect in relation to the land at Seven Brethren and via the purchase of a small number of residential properties for temporary accommodation. The Council was open to exploring opportunities to become more commercial. However, the Council's own asset portfolio might yield financial benefit to develop and increase revenue and the risks verses the benefits would need to be assessed accordingly.

- The full sum of the Parish Grant funding was £68k. However, next year's draft budget had assumed that would be removed.
- Planning fees were set nationally and were increased by up to 20% to allow for re-investment within the planning system.
- The Council would need to be more proactive to ensure that the budget gap was reduced.
- The core software costs for the financial system were calculated depending on the size of the Council. So, sharing such a system with Torridge District Council would not be of any benefit unless it was a fully joined up service.
- North Devon + were a jointly controlled company by North Devon and Torridge District Council.

RESOLVED, that the decisions and recommendations of the Strategy and Resources Committee be endorsed.

The Leader advised that the Strategy and Resources Committee welcomed any ideas that Members had to generate income to the Council.

Councillor Worden declared a personal interest as the Council appointed representative to North Devon +.

The Chairman added that he had sent out an email to all Members to seek their views on areas of focus and discussion going forward.