

**FORM 2**

**NOTICE OF DECISION OF CABINET MEMBER**

Pursuant Section 15(4) of the Local Government Act 2000, as amended by section 63 of the Local Government and Public Involvement in Health Act 2007, the senior executive member may discharge any of the functions that are the responsibility of the Cabinet or may arrange for them to be discharged by another member of the Cabinet or Officer. On 1<sup>st</sup> December 2010, the Council adopted the Strong Leader Model for Corporate Governance 2011 as required under Part 3 of The Local Government and Public Involvement in Health Act 2007 (The 2007 Act).

In accordance with the authority delegated to me, I have made the following decision:

<b>Subject</b>	<b>Decision</b>	<b>Reason for decision</b>	<b>Date for Decision to be taken</b>
Report on the provisional final accounts outturn 2018/19	To receive the provisional outturn position in relation to the Final Accounts for 2018/19.	This report details the provisional outturn position as at 31 <sup>st</sup> March 2019 and provides information on the creation of further significant earmarked reserves.	23/5/2019.

**I confirm that the appropriate statutory officer consultation has taken place with regard to this decision.**

Dated:

23 May 2019

Signed:



Councillor Graham Ballinger  
Leader of the Council

**WYRE FOREST DISTRICT COUNCIL**

**CABINET**

**23<sup>rd</sup> May 2019**

**REPORT ON THE PROVISIONAL FINAL ACCOUNTS OUTTURN 2018/19**

<b>OPEN ITEM</b>	
<b>DIRECTOR:</b>	<b>Corporate Director: Resources</b>
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<b>APPENDIX 1</b>	<b>Appendix 1 - Explanation of Major Variations on Revised 2018/19 Budget</b>

**1. PURPOSE OF REPORT**

- 1.1 To receive the provisional outturn position in relation to the Final Accounts for 2018/19.

**2. RECOMMENDATIONS**

The Cabinet is asked to NOTE as detailed in Appendix 1:-

- 2.1 The most welcome news that a total saving of £311,330 has been achieved for 2018/19 reducing to £100,330 after the transfers to risk reserves as set out in 2.2 and 2.3 below. This has been achieved by prudent budget management, particularly in relation to Pay and General Administration budgets and includes a planned release increase in the Working Balance of £200k as set out in 3.7.
- 2.2 That £95,000 from the 2018/19 savings has been used to increase the existing earmarked reserve for the Innovation Fund to continue to meet the costs of our challenging Wyre Forest Forward Programme as detailed in 3.7.
- 2.3 That £116,000 from the 2018/19 savings has been used to replenish the General Risk reserve;
- 2.4 That in addition to the Service savings above, This Council's share of the former Worcestershire Business Rates Pool Risk Reserve redistribution was £533k plus a small positive Business Rates Income variance of £17k for the year, providing £550k additional Business Rates income for 2018/19 overall. Of this sum, £295k was used to replenish the Business Rates/ Equalisation/ Regeneration Risk Reserve to £1m (unallocated), the remaining £255k was used as a further top-up of the Innovation Fund to support the impending potential costs of the Transformation work to start closing the £2.1m Funding gap.

## **BACKGROUND**

- 3.1 The Accounts and Audit Regulations 2015 have been incorporated into the Council's Financial Regulations. These regulations require that the Council's Statement of Accounts be produced and approved by the Chief Financial Officer on or before 31<sup>st</sup> May, 2019. For this Council the Corporate Director: Resources is the Chief Financial Officer
- 3.2 Regulations require an accelerated closedown table for the 2018/19 accounts with the draft accounts being prepared by the end of May and the final audited accounts by the end of July. As part of the preparations for this earlier closedown, the Finance team worked with Grant Thornton last year to bring forward the completion of closedown processes. This was been a successful exercise and provided learning points for this year when the earlier closedown is a statutory requirement.
- 3.3 The Audit Committee will be considering and endorsing the full Pre-Audit Statement of Accounts on 29<sup>th</sup> May 2019, and a full copy of the Statement of Accounts will be made available on the Council's Intranet for Members' perusal.
- 3.4 The Statement is then subject to audit. Whilst the Council's external auditor, Grant Thornton, has until 31<sup>st</sup> July 2019 to complete the audit, this is the second year of the earlier statutory timeline for completion of the accounts. The accounts will be formally published on the 31<sup>st</sup> July.
- 3.5 Should it be necessary for Grant Thornton to agree technical changes with the Chief Financial Officer while the accounts are subject to audit, these will be made under delegated powers. All Members of the Council will be provided with an electronic copy of the Statement.
- 3.6 The Council's Accounts will be made available for public inspection as required by the Accounts and Audit Regulations 2015, for a period of 30 days between 3<sup>rd</sup> June 2019 and 12<sup>th</sup> July 2019. The revised legal requirements no longer include an appointed day when external auditors must be available for questions or queries. If any local government elector for the area has any questions on the Accounts for the external auditor an appointment should be made in advance, in writing.
- 3.7 The provisional revenue outturn position has identified savings of £100,330. This includes the planned increase to the Working Balance from £1m to £1.2m and also the planned increase to the uncommitted element Business Rates Risk Reserve from £705k to £1m, as set out in paragraph 3.3, along with £255k to the Innovation Fund. This is subject to audit and is after the creation of the earmarked reserves; firstly for the further top-up of the Innovation Fund £95k, the second for a top-up of the General Risk Reserve of £116k taking the unspent and unallocated balance to £500k.  
Appendix 1 summarises major variations from the Revised Budget for Members' information.

## **4. KEY ISSUES**

- 4.1 The most significant issue facing the Council remains its financial position. The updated medium term financial strategy, approved by February Council, provides a balanced approach for the next three years. There was a planned use of reserves in 2018/19 of £264,210 taking into account a planned increase in the Working Balance of £200k and the forecast impact of changes to the Funding regime mean that by 2020/21 transfers from reserves are required of around £800,000. The overall funding gap increases to around £2.1m from 2021/22 and further work on the Wyre Forest

Forward Savings Strategy will be actively progressed to close this gap and ensure the future financial sustainability of the Council. More certainty around the scale of future financial savings will be known following the release of further detail on the Funding Reform.

## **4.2 Business Rates – Provisional Outturn for 2018/19**

- 4.2.1 This has been the sixth year of the Business Rates Retention Scheme and the final year of operation of the smaller Worcestershire Business Rates Pool without Malvern Hills District Council. Draft results for this year show the outturn for 2018/19 to be in line with the optimistic forecast growth assumed in the approved budget. The Pool overall should retain total levy of £2.493m of which 50 percent (after deduction of the £10k Worcestershire County Council administration fee) was initially transferred to a risk reserve with the remainder distributed to Pool members. The Council has exceeded our revised budget estimate of £3.282m including our estimated share of retained growth of £547k over baseline. This has facilitated an additional £17k top-up towards the Business Rates Equalisation Risk Reserve.
- 4.2.2 Since 2018/19 was the final year of the smaller Worcestershire Business Rates Pool with a move to the Pan-Worcestershire 75% Pilot for 2019/20, in line with governance arrangements, agreement was reached to redistribute the accumulated Risk Reserve to Pool members in March 2019. The Total Risk Reserve stood at £3.114m as at 31<sup>st</sup> March 2019. This Council's share was £533k. This has facilitated an essential top-up of the Business Rates Equalisation Risk Reserve to £1m to mitigate the significant inherent risk of the Funding Reform planned for implementation from 2020/21. The balance of the returned Risk Reserve was used to top-up the Innovation Fund as set out in paragraph 3.3 above.
- 4.2.3 Several factors have contributed to this good news. Firstly, growth has been quite positive this year. Secondly, whilst appeals remain a risk, and the Rating list issued by the Valuation Office effective from April 2017 has caused some concern, it has been possible to broadly manage potential new appeals and bad debt provision within our previous provision levels. The only exception to this is for ATMs for which additional appeals provision has been made in view of the potential outcome of the Supreme Court decision appeal. These factors, together with no significant business failings in 2018/19, have contributed to the Council's results. Based on the membership agreement of the Worcestershire Business Rates Pool, we should receive a Pool payment for our share of the retained levy of £105k commensurate with our growth. However, the increased risk around appeals in relation to Supermarkets, in particular, remains and although we have made provision within the accounts for such payments it is unknown if this will be sufficient.
- 4.2.4 The Business Rates Equalisation/Regeneration Risk Earmarked Reserve reduced during 2018/19 to £705k (uncommitted). This reserve now needs replenishing towards risk mitigation of unforeseen increases in appeals, rating list reductions, the impact of the ongoing Business Rates reform and potential decline in growth. To preserve and further increase this essential risk reserve, it is therefore necessary to allocate £295k of Business rate income to take this reserve to £1m (unallocated). This is proportionate to potential risks and is in line with risk reserves held by neighbouring Worcestershire districts and will be kept under review and released into General Reserves in due course if it is not required.
- 4.3 The 2018/19 financial year has seen the introduction of a new accounting standard relating to the treatment of revenue (income) from contracts with customers (IFRS15). This revised standard requires the income from service contracts to be recognised as

the performance obligation is satisfied. This has had a significant impact on planning fee income and the revenue from the green waste collection service.

4.4 Included within Appendix 1 is the identification of the significant variances against the Revised Budget for 2018/19. These variances include:

i) Positive pay variance of £174k.

*Reductions have been made in expenditure across the authority as austerity continues. This includes savings in pay budgets of £136k most of which is for vacant posts where recruitment has taken longer than anticipated and reductions in overtime, plus savings in pension costs.*

ii) Housing Benefit Overpayments – decrease in provision for bad debts and improved recovery of overpayments- £166k favourable.

*The introduction of Universal Credit has made the recovery of overpayments and required level for the bad debt provision very difficult to forecast and an improvement on the assumptions included in the approved budget has been achieved.*

iii) Community Well-being and Environment – favourable variance of £199k (£301k including pay variances and capital charges)

*There are a number of favourable variances across the directorate including an upturn in Car Park usage and season ticket sales in the final quarter (£62k). Details of all major variances are set out in Appendix 1.*

iv) Economic Prosperity and Place – adverse variance of £11k (£nil including pay variances)

*There are a number of favourable and adverse variances across the directorate including additional income from planning advice and reduced specialist fees (£33k). The impact of revised accounting for revenue recognition from service contracts (IFRS15) resulted in an adverse variance of £60k. Details of all major variances are set out in Appendix 1.*

i) Property Debts – Bad Debt Provision – adverse £73k

*An increase in the bad debt provision for property debts*

v) Additional External Interest income/lower interest paid on loans of £30k

*This additional interest on investments has resulted from slightly longer durations and robust treasury management of funds together with lower interest rates paid on external borrowing compared to budget assumptions.*

vi) Release of earmarked reserves – favourable variance of £72k

*Earmarked Reserves are subject to regular review and challenge by CLT with service managers encouraged to release reserves that are unlikely to be required.*

vii) Additional earmarked reserves of £211k

*The variance analysis includes expenditure of £95k to replenish the Innovation Fund to assist the Wyre Forest Forward Programme of innovation and £116k to replenish the general risk reserve. (An additional £255k has been added to the Innovation fund from Business rates income see paragraph 4.7).*

viii) Opening balance adjustment re IFRS15 £176k

*The variance analysis includes disclosure of the impact of adopting the new Revenue Recognition standard (see para 3.3 above)*

- 4.5 It is clear that the future financial position for the Council will continue to be challenging with austerity measures set to continue to balance the macro budget in the run up to and beyond the exit from the European Union. The reduced level of funding currently programmed for the Council in the future is being mitigated by a raft of innovative reviews being developed and implemented as part of the Wyre Forest Forward programme.
- 4.6 The draft position for 2018/19 demonstrates that through prudent financial management and the review and release where relevant of existing earmarked reserves resources were made available to fund additional earmarked reserves (net of release of reserves) as set out in paragraph 3.7.
- 4.7 The Innovation Fund set up in 2011/12 for one-off implementation costs to support the Wyre Forest Forward programme has been extremely successful in delivering the change programme. This report outlines an additional £350k to supplement this reserve from final account savings and Business Rates Income. Taking this into account £587k remains uncommitted from this fund at the beginning of 2019/20.
- 4.8 It should also be noted that, the Working Balance has been increased to £1.2m to reflect the significant financial risks faced by this Council as a result of the planned fundamental changes to the Government Funding Regime in 2020/21 and beyond.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 The positive variance of £311,330 on net Service expenditure compared to the Revised Budget, reducing to £100,330 following the creation of a number of additional significant earmarked reserves, results in a contribution from General Reserves of £163,880 rather than the £264,210 planned use of reserves. The resultant reserves will be reconsidered in accordance with the Council's Finance Strategy, as part of the budget process for 2019/20 onwards. The saving is greater than reported at Quarter 3 budget monitoring due to a number of events and decisions in the last quarter coupled with year-end transactions. Two additional reserves were also created out of the Business Rates surplus/Risk Reserve redistribution for this year, the first was a planned £295k top-up of Business Rates/Equalisation/Regeneration Risk Reserve, the second is for the Innovation Fund top-up of £255k.
- 5.2 These remain extremely challenging times for the Council given the impending changes to the landscape of the Government's funding regime that will continue to emerge as further consultation papers are published as we move towards implementation of the Funding Reform planned for April 2020. The saving on outturn is welcomed and has been utilised to earmark funds to meet potential liabilities, create resilience and also to increase General Balances compared to forecast, to mitigate the potential future impact of funding volatility.
- 5.3 Total general reserves available for the 2020/23 Financial Strategy should now stand at circa £3.787m compared to the previous forecast of £3.687m.

## **6. LEGAL AND POLICY IMPLICATIONS**

- 6.1 None.

## **7. RISK MANAGEMENT**

- 7.1 The principal risk to the Council is non-achievement of the Accounts and Audit Regulations 2015 deadline, in respect of production and approval of the Statement of Accounts before 31<sup>st</sup> May 2019, and qualification of the Accounts by the Council's External Auditors. Officers continue to work in close liaison with Grant Thornton to response to queries or additional evidence requests to mitigate the risk of not meeting the deadline.

## **8. EQUALITY IMPACT ASSESSMENT**

- 8.1 This is a financial report and there is no requirement to undertake an Equality Impact Assessment.

## **9. CONCLUSION**

- 9.1 This report details the provisional outturn position as at 31<sup>st</sup> March 2019 and provides information on the creation of further significant earmarked reserves.

## **10. CONSULTEES**

- 10.1 CLT/Cabinet  
10.2 Grant Thornton – External Auditors

## **11. BACKGROUND PAPERS**

- 11.1 Accounts and Audit Regulations 2015  
Financial Strategy 2019/22  
11.2 Audit Committee Agenda May 29<sup>th</sup> 2019

**PROVISIONAL OUTTURN**  
**MAJOR VARIATIONS BETWEEN REVISED BUDGET**  
**AND ACTUAL NET EXPENDITURE FOR 2018/19**

Total Revised Budget 2018/19	£ 12,016,120
	12,016,120
<b>LESS:</b>	
Actual Net Expenditure - not finalised - still subject to validation	11,916,356
	(99,764)
SAVINGS COMPARED TO 2018/19 REVISED BUDGET	(570)
Increase in Funding from Business Rates/other Govt funding	(100,334)
<b>OVERALL SAVING COMPARED TO REVISED BUDGET</b>	<b>(100,334)</b>

Description of Estimated Major Variances	Extra Costs/ Reduced Income £	Savings/ Additional Income £
<b>Chief Executive and Solicitor to the Council</b>		
1. New Burdens grant received for land Charges property searches		(15,000)
2. Receipts from Court and legal costs exceeded projections		(11,000)
3. Human Resources General contingency under spend		(6,000)
4. Wyre Forest forward savings unachieved (to be met from net salary savings see* below)	41,000	
<b>Resources</b>		
1. Housing Benefit - decrease in bad debt provision and improved recovery of overpayments		(166,000)
2. Increase in bad debt provision for Corporate and Property debts	73,000	
3. Unfunded Pension Fund Deficit Payments - Saving due to upfront payment of Pension Liabilities		(38,000)
4. Council Tax - increase in income from court costs recovered		(12,000)
5. Payroll Services - Negotiated settlement for payroll provision		(8,000)
6. Impact of Accounting standard implementation and review (Audit fee accrual)	44,000	
<b>Community Well Being and Environment</b>		
<b>Cultural Services</b>		
No significant variations to report		
<b>Depot Services</b>		
1. Procurement savings waste transfer station skip service		(18,000)
2. Parking Fees - Quarter 4 uplift in carpark usage and Season ticket sales		(62,000)
3. Civil Enforcement - Additional fines		(24,000)
4. Car Parking - Reduced maintenance costs		(34,000)
5. Garden Waste - Additional Income from increased customer base		(12,000)
6. Reduced reactive repairs (vandalism) and cost of general repairs Council maintained Public Conveniences		(20,000)
7. Parks and Green Spaces expenditure funded from S106 receipts		(31,000)
8. Release of funds from General Risk reserve to meet cost relating to asbestos (Depot 2020 site survey)		(15,000)
9. Reduced cost of maintenance sports pitches		(8,000)
10. Other net Community Wellbeing and Environment		(11,000)
Impact of Accounting standard implementation and review (IFRS15)	36,000	
<b>Economic Prosperity and Place</b>		
1. Wyre Forest House Reduced Income	8,000	
2. Development Control - Reduced Specialist Fees & Additional Income from Planning Applications and advice		(33,000)
3. Land Charges - Reduced Income	14,000	
4. Property - Increased Income across industrial estates/other property		(14,000)
5. Release of Earmarked Reserve for EPC		(38,000)
6. Impact of Accounting standard implementation and review (Licensing fee accrual)	58,000	
7. Other net Economic Prosperity and Place		(44,000)
Impact of Accounting standard implementation and review (IFRS15)	60,000	
<b>Capital Account</b>		
1. Interest - additional external interest received		(30,000)
2. Development Loans Fund interest received - initial lead times exceeded expectation	10,000	
<b>Corporate Variations</b>		
1. Total Payroll related variances * see WFF saving above		(177,000)
2. Replenishment of Innovation Fund (EMR)	95,000	
3. Transfer to General Risk Reserve	116,000	
4. IFRS15 opening balance accounting adjustment	176,000	
5. Icelandic Impairment and interest		(12,000)
	731,000	(839,000)
7. Miscellaneous variances (less than £5k)		7,666
<b>REDUCED NET EXPENDITURE ON YEAR 2018/19 - PROVISIONAL</b>		<b>(100,334)</b>
<b>* Note re creation of Additional EMRs from Business Rates Risk Reserve Receipt</b>		
Planned replenishment of Business Rates Equalisation/Risk Reserve		295,000
Innovation Fund		255,000
		550,000