

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 20 JUNE 2019

2018/19 FINANCIAL OUTTURN AND DRAFT ACCOUNTS UPDATE

REPORT BY DIRECTOR OF FINANCE

ABSTRACT

This report provides details of the unaudited financial outturn position on both a revenue and capital basis for 2018/19 for Angus Council and an update with regard to the preparation of the 2018/19 Annual Accounts.

1. RECOMMENDATIONS

1.1 It is recommended that the Council:-

- i Note the update with regard to the preparation of the 2018/19 Annual Accounts and that, in accordance with statutory requirements, they will be submitted to Audit Scotland by the 30 June 2019 deadline;
- ii Note that the Council's Annual Accounts will be published on the Council's website on or around 30 June 2019;
- iii Note the revenue budget performance and associated commentary as set out in Section 4 and Appendices A, B and E of this report;
- iv Note the capital budget performance and associated commentary as set out in Section 4 and Appendix D of this report;
- v Approve the end of year 100% budget carry forwards as set out in Section 4 and Appendix C of this report in accordance with the Council's budget carry forward scheme subject to none of these being affected by changes arising from the audit process.

2. ALIGNMENT TO ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT

2.1 This report contributes as a whole to the Council Plan / Local Outcome Improvement Plan.

3. BACKGROUND

3.1 The Council is required by law to prepare Annual Accounts which set out its financial position at the end of each financial year. These Accounts are prepared by the Director of Finance and his team on a draft basis for submission to the Controller of Audit in order that they may scrutinise their accuracy and completeness. The Accounts represent the culmination of the year's financial transactions and are an essential means of demonstrating the proper stewardship of public funds as well as budget performance and financial control. The Council is legally obliged to complete the draft Accounts and submit them by 30 June to Audit Scotland.

3.2 The information presented in this report is based on the management structure and Directorate and Service names which applied during the 2018/19 financial year.

3.3 Annual Accounts Process

Preparation of the Council's 2018/19 Accounts is nearing completion and are on schedule to meet the statutory submission deadline (30 June). These draft accounts will be submitted to Audit Scotland by the 30 June, then published on the Council's website at the end of June for public inspection and will be submitted to the August meeting of the Scrutiny & Audit Committee.

- 3.4 This report summarises in a simpler format than the formal Accounts how the Council has performed financially in 2018/19 by comparing budget and actual expenditure and income. The information is presented in a similar format to the budget monitoring reports to Policy & Resources Committee during the year.

4. BUDGET PERFORMANCE

4.1 Background

This report looks at budget performance on revenue (running costs) and capital (investment in assets) for both the Housing Service and the General Fund (which covers all other services provided by the Council).

Revenue Budget Performance - General Fund Services

- 4.2 The Policy & Resources Committee received regular updates on budget performance during financial year 2018/19 based on a monitoring budget of £263.379m.
- 4.3 When the Council set its 2019/20 revenue budget in February 2019 a saving against the 2018/19 monitoring budget of £2.6m was anticipated whereof £1.3m was to be earmarked leaving £1.3m available as uncommitted at that time.
- 4.4 The most recent projected outturn for 2018/19 reported to the Policy & Resources Committee on 30 April 2019 predicted a saving against budget of £5.7m whereof £3.5m was to be earmarked leaving £2.2m available as uncommitted.
- 4.5 Appendix A to this report provides a detailed breakdown of budget performance for each Council service and for centrally held budgets such as capital charges and financing and covers the same headings as those used in the budget monitoring reports submitted to Policy & Resources Committee.
- 4.6 Overall a saving compared to budget for Angus Council's General Fund Services of £10.8m was achieved in 2018/19. This compares to the most recent projected position of £5.7m, an increase of £5.1m.
- 4.7 Around 75% (£3.8m) of this £5.1m is however ring-fenced grant income (£2.8m); Devolved School Management (DSM) underspends (£0.9m) and previously approved carry forwards (£0.1m). All of these areas had been assuming an on budget position during the year in the budget monitoring reports to the Policy & Resources Committee in part because of their ring-fenced nature but in hindsight the expected savings in those areas should have been included in the last reported position. These monies cannot be used for any other purpose and although unused at 31 March 2019 need to be earmarked for use in 2019/20.
- 4.8 After allowing for these adjustments the position is a £7.0m saving against the budget set. Some of this was known about or planned for during 2018/19 and in setting the 2019/20 budget as part of the Council's proactive financial management arrangements. In addition some of this saving has arisen due to delays in costs being incurred into financial year 2019/20 and this requires those savings to be earmarked and carried forward from 2018/19 to 2019/20. Table 1 below shows the gross saving made and the net savings available for other purposes.

Table 1 - Summary of Appendix A

	£m
Gross Saving – General Fund Services	10.775
Less Ring-fenced Grant Income/DSM balances and previously agreed budget carry forwards	(3.795)
Adjusted Saving Compared to Budget	6.980
Less Capital Charges & Financing Savings (earmarked to support future budget pressures and special repayment of debt)	(1.799)
Less Savings in Change Programme Costs (earmarked for use in 2019/20)	(0.138)
Less Balance of Severance Provision (earmarked for future use)	(1.725)
Savings Available for Other Purposes (before requested carry forwards)	3.318
Less Proposed 100% Budget Carry forwards (see Appendix C)	1.402
Net Savings Available for Other Purposes	1.916

- 4.9 In addition to the above and as previously reported the Council was successful in receiving a VAT refund of £3.4m during the year and has also collected more Council Tax than had been budgeted for (£0.6m). These items when added to the revised savings available for other purposes in Table 1 give the Council an improved financial position of £5.9m in total.

Overall Impact on the General Fund Balance

- 4.10 When the Council set it's 2018/19 Revenue Budget it planned to fund £5.558 million of costs from its General Fund Balance, in other words it budgeted for a deficit of £5.558 million. For accounting purposes and to reflect the fact that Services can carry forward some unspent budget from previous years this budgeted deficit has subsequently been revised to £10.484 million.
- 4.11 The actual year end position on the General Fund Balance shows an increase of £4.200 million which compared to the revised budgeted deficit means the General Fund Balance is £14.684 higher than expected on a gross basis. This gross position does however need to be interpreted carefully because much of this relates to delayed spending rather than real savings which can be used for other purposes. The gross position is also substantially inflated by the VAT refund the Council received which clearly was not budgeted for.
- 4.12 Table 2 below shows how the gross movement on the General Fund Balance has arisen and also how much of that movement can be regarded as available for use.

Table 2 – Gross Change in General Fund Balance and Net Balance Available

	£m
Net Expenditure lower than budget - Directorate budgets	10.775
Additional Income from HMRC VAT Refund	3.400
Additional Council Tax Income Collection	0.615
Movement in Prior Year Council Tax Bad Debt Provision	0.089
Saving in Council Tax Reduction Scheme Costs	0.183
Transfers To Housing Revenue Account	(0.570)
All Other Items (Net effect)	0.192
Gross Change In General Fund Balance	14.684
Less Ring-fenced Grant Income/DSM balances and previously agreed budget carry forwards	(3.795)
Less Capital Charges & Financing Savings (earmarked to support future budget pressures and special repayment of debt)	(1.799)
Less Savings in Change Programme Costs (earmarked for use in 2019/20)	(0.138)
Less Balance of Severance Provision (earmarked for future use)	(1.725)
Net Change (before requested carry forwards)	7.227
Less Proposed 100% Budget Carry forwards (see Appendix C)	(1.402)
Net Balance Available*	5.825

* - this is the net balance available arising from 2018/19 budget transactions. The actual General Fund Balance available is higher because of existing uncommitted balances and other contributions to and from general fund balances at 31 March 2019 (see Tables 8 & 9 below)

Money Held by Angus Schools

- 4.13 Appendix E provides a breakdown of the monies which are held and ring-fenced by Angus Schools and which are not available for other purposes. The Appendix shows the balances held under the Devolved School Management (DSM) scheme and Pupil Equity Fund (PEF). Together these amount to £1.501m.

Revenue Budget Versus Actual – Directorate Budgets

- 4.14 Appendix A attached provides a Directorate breakdown of the £10.775 million reported in Table 1 and the adjustments made. Appendix B provides a short commentary on all of the main variances in Table 1. Appendix B is in 2 parts. Part 1 explains variances between budget and actual for the year and part 2 explains the main variances between the actual position and the last projected position through the Council's internal budget monitoring process.

4.15 It will be noted from Appendix A that all Directorates and Services operated within their controllable budget in 2018/19. Budget holders supported by Finance staff will undertake a detailed review of the variances compared to budget and assess whether adjustments are required to 2019/20 or 2020/21 budgets based on the 2018/19 experience.

100% budget carry forwards

4.16 A key part of the Council's financial management arrangements is to provide budget flexibility across financial years and this allows services to carry forward resources for specific purposes.

4.17 The 100% carry forward requests from Directorates and those recommended for approval (totalling £1.402 million) are shown in Appendix C. These carry forwards are all for essential works and projects and represent unavoidable financial commitments which will arise during 2019/20 and provides all Directorates with flexibility in managing their budgets in an increasingly difficult financial environment. One request is provisional as is subject to the Capital Projects Monitoring Group (CPMG) being provided with additional information.

4.18 Included in the £1.402 million above is a request for £0.500 million towards Tay Cities Deal (TCD) – revenue funding arrangements for implementation.

Tay Cities Deal Carry Forward Request (£0.5m)

4.19 There is an expectation by both UK and Scottish Governments that local government, it's partners and the private sector contribute to the realisation of economic growth and Angus Council has signed up to this partnership arrangement when signing the Heads of Terms in November 2018. There is now an opportunity to set aside some of the savings made on the overall 2018/19 revenue budget to create a Tay Cities Deal revenue fund. This revenue fund will help to support the implementation of The Mercury Programme which aims to deliver £1bn in clean economic growth over the next 10 – 20 years.

4.20 If approved it is proposed that the £0.500 million carry forward request is set aside in balances to help cover the expectations that Angus Council will contribute to the implementation of the programme over the next three years. A similar approach has been taken with the Change Fund which has enabled the right support to be levered on a temporary basis to meet requirements. The council has already agreed to set aside funds for the Project Management Office and in the budget setting this year identified a further resource for two officers to ensure Angus is engaged in the wider regional approach to delivering Strategic, Outline and Final Business Case's to ensure the money is released for all of the projects and programmes where Angus has an interest. These two posts will also seek additional investments out with the Tay Cities funding to help deliver the broad ambition for clean growth in Angus.

4.21 The Council has also set aside £4.5m in the capital programme to begin to identify the capital resource that will be required to deliver the programme in the implementation phase. Establishing a £0.500 million revenue fund will augment these arrangements and help to deliver the implementation of projects and programmes. For example, one aspect of The Mercury Programme relates to masterplanning Montrose and the potential to create a pilot Masterplan Consent Area (a designation due to be introduced by the Planning (Scotland) Bill). This will require additional resource within the Council's Planning Service as it doesn't currently have the capacity to deliver this work. This work would contribute to the Council's emerging Local Development Plan as well as the possibility of giving deemed planning consent for certain matters (e.g. some renewable energy infrastructure); de-risking investment for businesses and developers and encouraging sustainable development.

4.22 Similarly, the digital team is generally focussed on the internal digital needs of Angus Council, but there is money available in the TCD to progress external digital capacity improvements. A temporary resource may be required to help scope that aspect out and attract additional investment to support business and community connectivity. It could also be necessary to undertake survey work with the private sector to help improve our business cases as they develop. Demonstrating economic impact will be critical to ensure resources are released. The examples outlined above are to help demonstrate what a TCD revenue fund could be used for and member's approval is not being sought on these proposals at this time.

4.23 Where a fund is held in balances it is appropriate for governance arrangements to be developed and agreed by Angus Council regarding the use of the resource. The intention would be to provide clarity and transparency with regard to the use of the Tay Cities revenue

fund through the usual financial reporting channels. Should any of the £0.5m being proposed for this fund not be required it would be returned for alternative use in future.

Revenue Budget Performance - Housing Revenue Account (HRA)

- 4.24 When the Council set it's 2018/19 Revenue Budget for Housing it planned for a breakeven position which meant no contribution to or from Reserves was planned.
- 4.25 The actual year end position shows a surplus of £0.611 million and the reasons for this improved position are given in Appendix B. This surplus will transfer to the HRA reserve. A number of additional transfers to and from the HRA reserve have been made as part of the year end accounts resulting in a balance at 31 March 2019 of £4.211 million as set out in Table 3 below.

Table 3 – HRA Reserve Movement

	Transferred From Reserve £m	Transferred To Reserve £m	Reserve Balance £m
Opening Balance at 1 April 2018			4.285
Special debt repayment	(1.255)		
Funding for appropriated property	(0.168)		
Affordable Housing Revenue Account capital funding		0.474	
Additional temporary accommodation grant		0.264	
In-year surplus		0.611	
Total movements	(1.423)	1.349	(0.074)
Closing balance a 31 March 2019			4.211

Capital Budget Performance – General Fund

- 4.26 The Council's provisional capital budget for 2018/19 was set in February 2018, forming part of the 2017/2022 Financial Plan (report 62/18 refers). Following a comprehensive update of the 2017/2022 Financial Plan based on actual expenditure at the end of the 2017/18 financial year, the capital monitoring budget for 2018/19 was approved in September 2018 (report 256/18 refers).
- 4.27 Table 4, below, sets out the year end position on the overall General Fund capital programme for 2018/19 on a net basis (i.e. after the deduction of direct funding contributions).

Table 4 – NET Capital Expenditure 2018/19

Programme	Monitoring Budget Net £m	Actual Expenditure £m	Under / (Over) Spend £m	Percentage Spend Against Budget %
Strategic Policy, Transformation & Public Sector Reform				
Strategic Policy & Economy	0.855	0.261	0.594	30.5
Place				
Communities – Planning & Communities	0.060	0.000	0.060	0.0
Communities – Environmental Services	2.975	1.805	1.170	60.7
Infrastructure – Property Asset	2.759	2.449	0.310	88.8
Infrastructure – Roads & Transportation	8.873	7.398	1.475	83.4
People				
Schools & Learning	4.500	3.845	0.655	85.4
Information Technology	1.145	1.121	0.024	97.9
Adult Services (IJB)	0.108	0.104	0.004	96.3
Angus Alive	0.770	0.666	0.104	86.5
Total Net Capital Expenditure	22.045	17.649	4.396	80.0

- 4.28 Table 5, below, details how the actual net expenditure of £17.649 million has been funded and compares this with the funding anticipated when the 2018/19 monitoring budget was set:

Table 5 – Capital Funding 2018/19

Funding Source	Monitoring Budget £m	Actual £m	Variance £m
Borrowing	9.593	4.106	5.487
General Capital Grant	12.202	12.298	(0.096)
Corporate Capital Receipts	0.250	1.245	(0.995)
Total Funding	22.045	17.649	4.396

- 4.29 Members will note from Table 5 that the Council significantly outperformed the budget for capital receipts with additional receipts from the sale of surplus assets of just under £1m being achieved. This has meant an equivalent reduction in the level of new borrowing required which helps the Council's future financial position.
- 4.30 Appendix D to this report provides a brief commentary on the capital budget performance of council Directorates during the year. The Capital Projects Monitoring Group reviewed the year end position in more detail at its meeting on 6 June 2019.
- 4.31 In summary, Angus Council spent £4.396 million less on General Fund capital projects than budgeted for and this together with higher than budgeted funding from capital grant and capital receipts has meant a substantially lower requirement for borrowing in 2018/19. In the main, the £4.396 million underspend against the monitoring budget is due to project delays and therefore represents a delay in incurring the expenditure rather than a reduction in the expenditure required.

Capital Budget Performance – Housing Revenue Account (HRA)

- 4.32 The HRA provisional capital budget for 2018/19 was set in February 2018. Following a comprehensive update of the 2017/2022 Financial Plan based on actual expenditure at the end of the 2017/18 financial year, the capital monitoring budget for 2018/19 was updated and reported to the Communities Committee in September 2018 (report 289/18 refers).
- 4.33 Table 6, below, sets out the year end position on the overall HRA capital programme for 2018/19 on a net basis (i.e. after the deduction of direct funding contributions).

Table 6 – NET HRA Capital Expenditure 2018/19

Programme	Monitoring Budget Net £m	Actual Expenditure £m	Under / (Over) Spend £m	Percentage Spend Against Budget %
New Build	3.668	3.828	(0.160)	104.4
Conversions	0.300	0.205	0.095	68.3
Aids & Adaptations	0.394	0.407	(0.013)	103.3
Improvements	0.024	0.00	0.024	0.0
Heating Installations & Replacements	1.844	0.399	1.445	21.6
Window Replacements	0.195	0.285	(0.090)	146.2
Energy Savings	2.932	1.229	1.703	41.9
Sheltered Housing	0.200	0.005	0.195	2.5
Kitchen Replacements	1.447	1.353	0.094	93.5
Bathroom Replacements	0.646	0.140	0.506	21.7
Miscellaneous / Balances on Completed Works	0.692	0.632	0.060	91.3
Total Net Capital Expenditure	12.342	8.483	3.859	68.7

- 4.34 Table 7, below, details how the actual net expenditure of £8.483 million has been funded and compares this with the funding anticipated when the 2018/19 monitoring budget was set:

Table 7 – Housing Capital Funding 2018/19

Funding Source	Monitoring Budget £m	Actual £m	Variance £m
Borrowing	2.000	0.000	(2.000)
Capital Receipts	1.107	0.000	(1.107)
Capital from Current Revenue	8.008	8.009	0.001
Affordable Housing Reserve	0.500	0.474	(0.026)
HRA Reserves	0.727	0.000	(0.727)
Total Funding	12.342	8.483	3.859

- 4.35 Members will note from Table 7 that the level of expenditure slippage on the HRA capital programme has meant that it has not been necessary to carry out any borrowing or utilise any capital receipts to fund the 2018/19 capital expenditure. This funding requirement has not however gone away but is merely subject to a delay in application in line with the slipped expenditure.
- 4.36 Appendix D to this report provides a brief commentary on the capital budget performance of the HRA during the year. The Capital Projects Monitoring Group reviewed the year end position in more detail at its meeting on 6 June 2019

5. COUNCIL RESERVES

- 5.1 The Council holds a number of Reserves and those which are classified as “Usable Reserves” for accounting purposes can be used to support service expenditure. All of the transactions on the General Fund and Housing revenue and capital budgets in 2018/19 affect the Council’s reserves as does expenditure met directly from Reserves such as the Renewal and Repairs Fund.
- 5.2 Based on all of the transactions for the 2018/19 financial year the main usable reserves and their balance at 31 March 2019 are shown below together with the equivalent balances at 31 March 2018:-

Table 8 – Usable Reserves

	Balance As At 31/3/19 £m	Balance As At 31/3/18 £m	Movement £m
General Fund	30.801	26.601	4.200
Housing Revenue Account	4.211	4.285	(0.074)
Capital Fund	1.521	2.206	(0.685)
Renewal and Repairs Fund	2.319	2.903	(0.584)
Insurance Fund	1.346	1.397	(0.051)
Usable Capital Receipts	1.524	1.424	0.100
Unapplied Grants	3.299	0.805	2.494
Other Reserves	<u>0.600</u>	<u>0.593</u>	0.007
Total	<u>45.621</u>	<u>40.214</u>	<u>5.407</u>

- 5.3 Overall the Council’s Reserves have increased by £5.407 million in the year ending 31 March 2019. Section 4 and Appendix B of this report explains how this has arisen and it’s effectively due to the net effect of all of the savings and use of reserves which has taken place during 2018/19.

General Fund Reserve

- 5.4 The main Reserve held by the Council is the General Fund Balance the opening balance on which at 1 April 2018 was £26.601 million including £0.824 million held on behalf of schools under the Devolved School Management scheme. At 31 March 2019 this Balance stands at £30.801 million of which £0.931 million is earmarked under the DSM scheme. Excluding these the total balance available for other purposes is £29.870 million.

- 5.5 A significant part of the General Fund Balance is committed or earmarked as follows:-

Table 9 – General Fund Commitments

	£m
Working Balance/Contingency (per existing policy)	4.000
Applied in 2019/20 Budget Setting	4.015
Saving on debt charges, used for informing discussions/decisions on the 20/21 budget setting process (committee report 64/18 refers)	1.799
Earmarked monies (including Earmarked Grants, Re-determinations & Prior Year carry forwards) which will be used in 2019/20 and future years	7.460
Proposed 100% Revenue Budget Carry Forwards (see Appendix C)	1.402
Change Fund (committee report 83/14 refers)	1.015
Affordable Housing Revenue Account	2.815
Total Committed Within General Fund Reserve	22.506

- 5.6 This leaves an uncommitted balance of £7.364 million at 31 March 2019. The future use of this sum will be considered as part of the ongoing delivery of the 2019/20 budget and the development of the budget strategy for 2020/21 and beyond. When the Council set its 2019/20 revenue budget in February 2019 it projected to have an uncommitted General Fund Balance of £5.838 million so the position now is an improvement of £1.526 million.

5.7 The Housing Revenue Account Reserve

The balance on this Reserve of £4.211 million is, as anticipated, above the policy level of £1.0 million and this will be taken into account in the ongoing commitment to: deliver new build and affordable housing; maintain the Scottish Housing Quality Standard; and as part of the budget strategy for 2019/20 and beyond.

Other Reserves

- 5.8 The Capital Fund balance (£1.521 million) relates to funding decisions within the Financial Plan and is largely committed, while the Renewal and Repairs Fund balance (£2.319 million) provides resources to assist the Council to respond to requirements to keep its property, roads, play parks, cemeteries and IT assets properly maintained. Most of this sum is also committed. The balance on the Insurance Fund (£1.346 million) will be reviewed in the context of potential liabilities. The Other Reserves (£0.600 million) include the Arbroath Harbour and Car Parking Reserves and also have some commitments against them. The balances on all of these Reserves were reviewed when the Council set its 2019/20 budget in February 2019 and they will be reviewed again in setting the 2020/21 budgets.

6. FINANCIAL IMPLICATIONS

- 6.1 The Annual Accounts for 2018/19 have been concluded to a stage sufficient to allow actual outturn information to be prepared and commented upon as detailed in this report.
- 6.2 Overall the Council's reserves are showing an increase of £5.407 million.

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

REPORT AUTHOR: GILLIAN WOODCOCK, MANAGER (FINANCE)

EMAIL DETAILS: FINANCE@angus.gov.uk

- Appendix A – Summary Outturn (Main Variances)
- Appendix B – Revenue Budget Performance Commentary
- Appendix C – Proposed Carry Forwards
- Appendix D – Capital Budget Performance
- Appendix E – Money Held by Angus Schools