



FINANCIAL PERFORMANCE 2018/19 - REVENUE OUTTURN

REPORT BY DIRECTOR FOR DIGITAL & RESOURCES

EXECUTIVE SUMMARY

1. PURPOSE

- 1.1 This report outlines the revenue financial monitoring position for the end of the 2018/19 financial year for Joint Strategic Committee, Adur District and Worthing Borough Councils. At the time of publication of this report, the Statements of Accounts are in the process of being audited. Any adjustments that emerge as the audit proceeds will be reported to members later in the year.

The outturn positions for operational spend were moderate overspends at both Adur (£158k) and Worthing Councils (£76k), which represents some improvement on the positions reported at Q3.

Overall outturn positions are underspends of £511,979 in Adur District Council, and £1,147,435 in Worthing Borough Council. After allowance for proposed carry forward of budgets in 2018/19, this represents a 4% underspend against budget for Adur and 5% for Worthing.

The table at 4.5 below sets out the components contributing to the underspend, with the most significant being business rate relief grant (received early, to be spent in the current year), lower capital borrowing costs in 2018/19, and project funding carry forwards.

The outturn figures include proposed carry forward requests, detailed in appendix 6, that will need to be met from these underspends which relate to committed spend that is now planned for 2019/20: Adur District Council £151,720 and Worthing Borough Council £407,900 (including the Joint Services proposals).

In addition there are some variances that relate specifically to 2018/19, some of which occurred in the last quarter of the year. Worthing Borough Council received additional income from planning fees and both Adur District and Worthing Borough Councils were allocated additional housing grant.

This is an improved outcome to what was projected in the quarter 3 monitoring report when net underspends of £291,000 and £1,105,000 were being forecast in Adur and Worthing respectively. The areas that have contributed to the net movement are highlighted in the report and appendix 5(b).

1.2 The following appendices are attached to this report:

Appendix 1 Joint Summary of 2018/19 Outturn

Appendix 2 (a) Adur District Council – Summary of 2018/19 Outturn
(b) Adur District Council - Use of Earmarked Reserves

Appendix 3 (a) Worthing Borough Council – Summary of 2018/19 Outturn
(b) Worthing Borough Council - Use of Earmarked Reserves

Appendix 4 HRA Summary

Appendix 5 (a) Major Variations – Budget to Outturn
(b) Major Variations – Quarter 3 to Quarter 4
(c) HRA Major Variations – Budget to Outturn

Appendix 6 Budgets Carried Forward to 2019/20

2. RECOMMENDATIONS

2.1 The Joint Strategic Committee is asked to recommend that Adur District Council, at its meeting on 18th July 2019 and Worthing Borough Council at its meeting on 23rd July 2019:-

(a) NOTE the overall final outturn for 2018/19.

(b) APPROVE the net appropriations to General Fund Reserves in the year as detailed in paragraph 6.2 totalling:

Adur District Council	£563,683
Worthing Borough Council	£1,450,685

(c) AGREE the net carry over of revenue budget to 2019/20 funded from reserves as detailed in appendix 6:

Adur District Council	£151,720
Worthing Borough Council	£407,900

(d) APPROVE the transfer of additional business rates income to the Business Rates Smoothing Reserves to earmark funds to address the timing difference between the Business Rates income received in the General Fund in year (net of reliefs), and the grant income paid from Central Government to reimburse lost revenue as a consequence of Government policy decisions on reliefs.

Adur District Council	£328,161
Worthing Borough Council	£480,174

2.2 Joint Overview and Scrutiny Committee is recommended to note the contents of the report and consider whether it needs to scrutinise any budget area in detail.

3. CONTEXT

3.1 Local authorities have a statutory duty under the Local Government Act 2003, to monitor their income and expenditure against their budget, and be ready to take action if overspends in expenditure or shortfalls in income emerge. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take action as they consider necessary.

3.2 The monitoring of the revenue budgets has been reported to the Joint Strategic Committee three times during the year, the last monitoring report was considered on 5th March 2019.

- 3.3 The successful delivery of the medium term financial strategy is fundamentally changing how the Councils are funded. The Councils are moving increasingly away from ever reducing government funding towards funding from the local community via Council Tax and Business Rates, and will become increasingly reliant on income from commercial activities.

4. REVENUE OUTTURN OVERVIEW

- 4.1 As part of the 2018/19 budget, the Councils committed to savings of £1.365m for Adur District Council and £1.981m for Worthing Borough Council to produce a balanced budget and to address the reduction in Government support. Services were required to carry out efficiency, procurement and base budget reviews to identify where income could be increased or expenditure reduced. From the budget monitoring it is clear that the majority of these savings have been delivered as expected.
- 4.2 The operational position is a net overspend by services of £158,000 in Adur and £76,000 in Worthing as a result of previously reported cost pressures such as increasing demand in the homelessness budgets. This includes meeting the challenges of significant savings requirements to balance the 2018/19 budget.
- 4.3 There are a number of timing differences which have benefited the budget in 2018/19 associated with the business rate retention scheme and the financing of the capital programme which are discussed in more detail below.
- 4.4 The significant variations that impact on the final outturn from quarter 3 to quarter 4 are identified in appendix 5(b).
- 4.5 The current year-end forecasts are comprised of a number of elements as set out in the table below:

2018/19 Forecast Outturn	Adur		Worthing	
	Q3 Forecast £000	Outturn £000	Q3 Forecast £000	Outturn £000
<u>Over/(under)spend in operational services – including share from Joint</u>	200	158	80	76
<u>Reduced borrowing requirement:</u> A lower than forecast call on the MRP (provision to repay debt) and net interest in 2017/18, due to reprofiling of the capital programme already adjusted for in 2019/20 budget.	(88)	(118)	(466)	(479)
<u>Planned contributions to the capital programme</u> Revenue contributions set aside to fund future capital works.	0	0	(73)	(140)
<u>Expenditure to be funded from reserves</u> Items of expenditure which are to be funded from reserves as approved by members.	187	132	242	239
<u>Budget provision related to timing differences:</u> Project funding to Carry forward to 2019/20 for projects that have yet to commence or will complete next year.	(27)	(120)	(249)	(262)
Investment in services from additional income to be carried forward to 2019/20.	0	(32)	0	(6)
Additional Government grants for Business Rate reliefs granted in year which will be used to fund the financial impact in 2019/20.	(376)	(328)	(520)	(480)
Net over/(under)spend before contributions from Reserves	(104)	(308)	(986)	(1,052)
Net contribution to / from (-) Reserves and use of capital flexibilities.	(187)	(204)	(192)	(235)
Committed revenue contribution to capital funded from departmental underspends.	0	0	73	140
Net underspend after contribution from Reserves	(291)	(512)	(1,105)	(1,147)

4.6 The key factors underpinning the financial outturn position include:

- An underspend in the Minimum Revenue Provision (MRP) and net interest budgets. The budgets are calculated on both the historic financing of previous years capital programmes and the impact of financing the current years capital spend. Changes to the expected spend, interest rate forecasts, and the associated level of borrowing have

reduced the expected cost in 2019/20. A full breakdown of the position is at 4.12.2.

- Budgets or additional income in year that have been committed as revenue contributions to capital schemes. Budget underspends to be carried forward to 2019/20. These occur where initiatives have not commenced or completed as early as expected. The expenditure is therefore still expected but not until the next financial year. This relates mainly to the major project budgets in Worthing which are currently in progress and run over several years.
- Government (section 31) grants received to compensate Councils for HM Treasury decisions relating to Business Rate reliefs. Although additional grants are paid in 2018/19 the impact of these decisions on business rates income will not hit the general fund until 2019/20. It is therefore prudent to transfer these additional funds to the Business Rates Smoothing Reserve. This reserve was established in 2017/18 to smooth the effect of the cash flow volatility within the Business Rates mechanism in future years.

4.7 The final revenue outturn reported for Q4 compared to budget are shown in the table below:

Summary of Reveue Outturn 2018/19			
	Joint	Adur	Worthing
	£000s	£000s	£000s
Current Budget 2018/19	22,331	8,628	13,517
Outturn	22,408	8,116	12,370
Outturn over/ (underspend)	77	(512)	(1,147)
percentage		(5.9%)	(8.5%)

The Joint overspend is transferred to Adur and Worthing Councils in line with their allocated share. The reported budget variances in Adur and Worthing, in the table above, include the total share transferred from the Joint services.

4.8 In the table below, the outturn positions have been separated between authority and by income and expenditure, to indicate the level of under/overspend of costs and the over/under achievement of income targets.

	Expenditure	Income	Net Total
Joint	£'000	£'000	£'000
Budget	29,224	(6,854)	22,371
Outturn	29,976	(7,529)	22,448
Actual (Under)/ Overspend	752	(675)	77
Varaince percentage	3%	10%	0%
Adur	£'000	£'000	£'000
Budget	35,230	(25,804)	9,426
Outturn inc Joint share	34,344	(25,444)	8,900
Authority (Under)/ Overspend	(886)	361	(526)
Adjustment for variances in MRP & Depreciation	420		420
Reserve Transfers	(407)		(407)
Authority (Under) / Overspend	(873)	361	(512)
Varaince percentage	-2%	-1%	-5%
Worthing	£'000	£'000	£'000
Budget	66,642	(50,786)	15,856
Outturn inc Joint share	68,120	(52,938)	15,182
Authority (Under)/ Overspend	1,478	(2,151)	(674)
Adjustment for variances in MRP & Depreciation	144		144
Reserve Transfers	(617)		(617)
Authority (Under) / Overspend	1,004	(2,151)	(1,147)
Varaince percentage	2%	4%	-7%

4.9 There are a number of key issues listed above which require a more detailed explanation. These are listed below.

4.10 COMMUNITIES DIRECTORATE

4.10.1 Housing Needs

The continued increased spend on providing emergency and temporary accommodation reflects rising demand across the South East, including Adur and Worthing and the lack of housing supply for those needing affordable accommodation, whether this is to prevent homelessness or to move people on from emergency accommodation.

Across the South East there is competing demand between local authorities for both emergency and temporary accommodation, the latter often being leased private sector accommodation.

Whilst Adur and Worthing have made significant progress in leasing more

affordable units of temporary accommodation, competition does mean that prices in some areas (e.g. Worthing) are being pushed beyond the reach of the Councils, and the supply of suitable emergency and temporary accommodation within the Borough is reduced.

Numbers of households in temporary accommodation has increased over the year from 127 at the end of March 2018 to 150 at the end of March 2019, this is split Adur: 44 households, Worthing: 106 households, with a 10% (as a proportion of the total figure) increase in the numbers of single households placed in temporary accommodation.

The outturn position is a £143,000 overspend in Adur. The overspend that had been projected in Worthing was offset in full by the receipt of additional Flexible Homelessness Support Grant in the final quarter.

Additional grant was also received from the government in respect of New Burdens associated with the introduction of the Homelessness Reduction Act, £27,000 in Adur and £72,000 in Worthing.

4.10.2 Environmental Health - Housing

With effect from 1 October 2018 mandatory licensing of HMOs was extended so that smaller properties used as HMOs in England which house 5 people or more in 2 or more separate households will in many cases require a licence. This has generated additional income of £35,000 for Adur and £134,000 for Worthing for these 5 year licences.

4.10.3 Environmental Services

The Restructure of the Environment and Waste teams into a new single service was fully implemented by the end of August. This had been planned from April and therefore has impacted on the ability to achieve the full year saving.

In 2018/19, growth was approved to create two additional waste & recycling rounds to service new properties being constructed. An in-year review identified that it was not necessary to fully implement this growth immediately, (whilst retaining service delivery), therefore some of this budget has been used to offset the changes to the timeline of the Environment service redesign.

Additional income has been received above budget relating to rent, services and grant for Adur this amounted to £9,000 and Worthing £80,000.

4.10.4 Commercial Waste

The costs associated with commercial waste came in above budget due to a combination of increased tonnage charges and an under estimation of the budget required, Adur £38,000, Worthing £119,000. Budget issues have been addressed in the 2019/20 budget.

4.10.5 Crematorium and Cemeteries

The crematorium in Worthing saw a shortfall in income of £202,000 due to a decrease in the number of cremations. Business was affected during the year by the closure of the Muntham Chapel for 3 months whilst refurbishment work took place and a reduction in numbers generally over the closing months of the year against the numbers profiled.

Cemeteries in Adur and Worthing under achieved against their income with both exceeding the net budget by £22,000 and £47,000 respectively.

4.11 DIGITAL AND RESOURCES DIRECTORATE

4.11.1 Parking Services

Income across Adur's car parks has increased from £509,000 in 2016/17 and £632,000 in 2017/18 to £698,000 in 2018/19. The income target in 2018/19 (£610,000) was exceeded by £88,000. Factoring in expenditure and central charges the service has generated a surplus of £74,000.

Income across Worthing's car parks has increased from £2,536,000 in 2016/17, £2,608,000 in 2017/18 to £2,861,000 in 2018/19. This increase of £253,000 over the last two years reflects the tariff review which came in to effect in January 2018. Controllable expenditure increased marginally by approximately £7,000 between 2017/18 and 2018/19. There was an increase in the depreciation charge to the service above budget in 2018/19, this was as a result of the revised upward valuation of the car parks by the external valuers. The overall position is a net overspend of £6,000.

4.11.2 Digital and ICT

The Digital and Design budget was underspent by £196,000, this was largely due to projects not commencing as projected. The primary reason for this has been the delay in the installation of the dedicated connectivity lines by third party suppliers into Adur and Worthing which are required to ensure services are performing. The delays have prevented several migrations from completing within the financial year. These connectivity issues have now been resolved and the programme of migrations is now underway.

4.11.3 Revenues and Benefits

Overall the service in Worthing had a net overspend against budget of £232,000. This was for a number of reasons including an underachievement in court cost and overpayment recovery.

The reduction in court cost income reflects the more customer-focused approach that has been adopted in respect of Council Tax arrears (e.g. being more prepared to enter into a payment arrangement for arrears to be paid without necessarily pursuing court action).

The reduction in overpayment recovery is directly linked to a lower value of overpayments being calculated, primarily due to the introduction of a secure national portal known as “Verify Earnings & Pensions” (VEP). This allows the Benefit team to obtain up to date income details (even where customers have supplied wage slips) and provides daily data matching reports in respect of discrepancies between Housing Benefit and HMRC taxable income records. Consequently, Housing Benefit records are more accurate and up to date, thereby reducing overpayments when erroneous data is retrospectively identified. Budget provision is being kept under review this year, and in the current year, income is broadly in line with the budget so far.

4.12 DIRECTOR FOR ECONOMY

4.12.1 Major Projects and Investment

The Major Project’s team have actively been working on a number of development sites and investments across the areas. The nature of these projects inevitably span over a number of budget years and commissioning timetables vary according to projects’ complexity and challenges that arise from market forces, public engagement, and viability issues. The effect of this is that projects have an uneven spend profile often with large amounts of money being paid over short time periods. This has resulted in an underspend of £147,000 in the budget set aside for this in 2018/19. The majority of this is to be earmarked to be used as revenue contribution to capital projects in 2019/20.

4.12.2 Culture

A successful year at the Worthing Theatres resulted in a net overachievement of £108,000. A large proportion of this, £90,000, relates to ticket levy income and will be transferred to reserves to fund future capital expenditure on the buildings.

These positive results are due to another record breaking pantomime, improved negotiations on deals with promoters, increased ticket sales and the tight management of the salaries.

4.12.3 Place and Economy

Markets and bus shelter advertising income in Adur exceeded the budget following a successful 12 months. For Markets, this has been generated through a sharper focus on the additional commercial elements, as well as a greater social media presence. The latter is shifting the Markets to a destination and experience, rather than just events. The bus shelter advertising has been realigned to a more commercial outlook, which has created greater business interest for advertising space. The net position was a £59,000 underspend.

In Worthing, additional income from seafront concessions and outdoor events contributed to a net underspend of £67,000. The concessions have moved to an application process, which has generated more interest, so much so that this year saw 100% coverage of all available concession sites for the very first time. The Outdoor Events Programme remains a positive intervention to the local economy as the events create greater experiences and activation across our places.

4.12.4 Planning and Development

Worthing received additional planning fee income in quarter 4 including the applications for redeveloping Teville Gate and Teville Gate House, the outturn position improved by £77,000. A request has been made to carry forward some of this fee income into 2019/20 to resource the associated work on these major applications. There was also a saving on the professional services budget.

Building Control also saw a marginal improvement to its expected overspend of £10,000.

Adur had predicted an overspend in Development Management of £30,000 due to consultants costs related to the New Monks Farm planning application, but an underspend from fees for West Sompting housing development late in the year has offset this and has come in marginally under-budget by £7,000. An overall improvement of £37,000.

Additional grants were received in quarter 4 in Adur (£67,000) and Worthing (£39,000) in Planning Policy.

4.13 CORPORATE

4.13.1 Business Rates

Additional net income was received in relation to Business Rates by Adur £328k and Worthing £480k during 2018/19; the table below shows a breakdown:

	Adur		Worthing	
	Budget	Actual	Budget	Actual
	£000	£000	£000	£000
Income - Fixed in January	7,352	7,352	13,106	13,106
Less: Tariff Payment	-4,930	-4,930	-9,840	-9,839
	2,422	2,422	3,266	3,267
Plus: s31 Grants from Govt	503	718	857	1,037
Less: Levy Payment	-587	-475	-764	-465
Net Income	2,337	2,665	3,359	3,839
Additional income above budget for 2018/19		328		480

The precept income from the Collection Fund is set before the start of the financial year as part of the budget process and the tariff payment is usually fixed by Government around the same time.

The section 31 grants are a reimbursement by Government for the income lost by local authorities for any reliefs or support given to local businesses under the business rate retention scheme.

This year there were a number of tax changes announced as part of the Budget Statement that have impacted on the income for the reporting year. However the changes were made after the income to be taken from the Collection Fund was determined. The result is a timing difference between when the grant is received (in 2018/19) and accounted for and when the Council will fund actual loss of income to the Collection Fund which will be in 2020/21.

To address this timing issue and protect the budget position in 2020/21, it is proposed that the additional business rate income is transferred to the Business Rate Smoothing Reserve (£328,000 for Adur and £480,000 for Worthing), which the committee is asked to ratify. This reserve will be used to compensate the Councils for reduced business rate income in 2020/21.

4.13.2 External Borrowing Costs, Investments and Minimum Revenue Provision

There are variances for both Adur and Worthing. For both Councils the MRP costs were lower than the budget due to re-profiling of the capital programmes: Adur had a favourable variance of £82k and Worthing had a favourable variance of £273k after an additional investment of £25k in the Boom Credit Union.

Investment returns were above budget for both Councils: Adur General Fund under achieved its income budget by £16k, but the HRA exceeded its income budget by £20k. Worthing exceeded its income budget by nearly £61k.

In addition, for Worthing, officers have taken advantage of the stability in interest rates to arrange some short term rather than long term borrowing, resulting in reduced costs from lower interest rates and reduced provision for repayment of debt, giving a net favourable variance of £170k. Most of Adur's borrowing is at long term fixed rates, so the Council does not benefit to the same degree from the current market rates. However, new long term borrowing at better than forecast rates resulted in a net favourable General Fund variance after expenses of £77k. There was a saving of £48k in interest costs for the HRA. Both Councils are also fixing longer term borrowing with the PWLB to fund the purchase of properties, as approved in their budgets.

Both Councils wrote down by £25k the value of their holdings in the Municipal Bonds Agency.

Treasury Management (Under) / Overspends	Adur	Worthing
Minimum Revenue Provision	(82,000)	(272,600)
Interest on Borrowing and TM costs	(89,700)	(169,300)
Investment Income	15,900	(60,700)
Write down of Municipal Bond Funds	25,000	25,000
Debt Management Expenses	12,400	(1,800)
Total	(118,400)	(479,400)

4.14 CROSS CUTTING

4.14.1 Maintenance

There have been some unavoidable costs incurred within Worthing during the financial year that have resulted in an overspend in maintenance costs of £285,000.

The contract for the maintenance of the cremators includes additional payments once the number exceeds the contracted threshold of cremations. These charges were paid in 2018/19 and related to the cremations carried out in the calendar years 2016, 2017 and 2018. The council made three payments of £25k for each of these years.

Maintenance works due to vandalism at our parade shelters and parks has also contributed to unavoidable costs of around £70k. Additional maintenance to our beach huts (we have 131 in total) has been necessary and a capital improvement budget bid will be made this year to replace some of the oldest and worse condition beach huts.

The maintenance costs at Splashpoint Leisure Centre and Worthing Leisure Centre that are the Councils responsibility continue to rise and an additional £100k spent. By its very nature the plant and equipment at Splashpoint are very specialist and hence expensive to maintain. The maintenance costs are also linked to the success/high usage of the facility. Some unavoidable costs have also been incurred due to vandalism of the external glazing at Splashpoint.

Expenditure on Worthing Pier substructure and landing stages has been necessary to keep this listed structure in good condition and to carry out fire safety works.

4.14.2 Facilities Management

During 2018/19 a review of energy cost recharges to external organisations was carried out, it has been identified and previously reported to Committee, that these had not been completed for a number of years and a recharge made of £195,000.

These were charges for utilities supplied to the Health Clinic and Law Courts on the Town Hall site. This income was partially offset by some increases in utility and cleaning costs.

4.14.3 Vacancy Provision

The Councils had a total vacancy saving target of £758,530 for 2018/19. The final outturn position was an underachievement of £120,580 against this target which is a £40,000 improvement on the forecast in quarter 3. There was a higher level of staff turnover in the last three months of the year than anticipated. The Councils' budgets for salaries in 2018/19 was £26.1m so this equates to 0.46% overspend.

5.0 ADUR HOUSING REVENUE ACCOUNT (HRA)

5.1 Adur Homes is held within a ring fenced Housing Revenue Account, which is shown in Appendix 4. Overall the HRA shows a significant underspend against its budget of £547,328, higher than the £485,020 projected in quarter 3. This outturn includes a £750k reduction in depreciation charges as a result of a change in the asset valuation methodology, this has been adjusted for the 2019/20 budget. The significant variances are detailed in appendix 5(c).

5.2 The HRA Reserve stood at £1.752m at 31st March 2019 which will be used to support the HRA in the final year of the government's rent restructuring policy, which has required social rents to be reduced by 1% each year over a four year period. From 1st April 2020, social and affordable rents can be increased by a maximum of CPI+ 1% per annum for five years.

6.0 CARRY FORWARD OF GENERAL FUND BUDGETS AND TRANSFERS TO RESERVES

6.1 Recommended Carry Forwards of Unspent Budget

Any unspent funds are placed into reserves at the year end. Budgets in respect of the items in appendix 6 remain unspent at 31st March 2019 and are required to complete existing initiatives in 2019/20.

The focus for carry forward proposals this year is on existing commitments or other essential items rather than bids for new initiatives. This is to build capacity in the reserves to protect the Councils' interests for the next two years. It is recommended that these amounts are carried forward to 2019/20 and funded from the respective Capacity Issues Reserves. The Committee may wish to consider how these items contribute to the Councils' priorities when approving the carry forwards.

The items detailed in appendix 6 are recommended for carry forward for the Joint Committee, Adur District Council and Worthing Borough Council.

6.2 Movements and Use of Reserves

As part of the 2018/19 final accounts process, officers have identified amounts that are recommended for transfer to reserves for specific purposes or planned as part of the budget process, as detailed below.

In 2018/19, both authorities drew down on reserves to fund redundancy and other costs. A detailed breakdown of the reserve positions is included in **Appendix 2b** for Adur and **Appendix 3b** for Worthing.

Adur District Council:

Adur District Council transfers to General Fund Earmarked Reserves 2018/19		
Budgeted/Committed contributions to/from reserves:	£	£
<ul style="list-style-type: none"> • Increase in Grants Carried Forward • Budgeted contribution to Reserves • Self-insurance charges and proposed contributions 	<p>9,902</p> <p>10,500</p> <p>30,700</p>	51,102
Contribution to reserves for future needs:		
<ul style="list-style-type: none"> • Transfer to Business Rate Smoothing Reserve (paragraph 4.12.1) 	328,161	
Contribution to reserves from general underspend:		
<ul style="list-style-type: none"> • Carry Forward requests to Capacity Issues Reserve (see appendix 6) • Unallocated General Fund underspend transferred to Capacity Issues Reserve • General Fund underspend transferred to General Fund Reserve (working balance) 	<p>151,720</p> <p>32,098</p> <p>602</p>	512,581
Total recommended net contributions to Reserves		563,683

If all the proposals in the above table are adopted, Adur District Council's General Fund Working Balance will increase to £518,773 which, at nearly 6.4% of net expenditure of £8.116m, is within the range of 6%-10% set by the Council. In addition the Council would retain earmarked revenue reserves of £1.049m (excluding the revenue grants reserve), an increase of £0.289m over 31st March, 2018. The full listing of earmarked reserves is attached as **Appendix 2b**.

Worthing Borough Council:

Worthing Borough Council net transfers to General Fund Earmarked Reserves 2018/19		
Budgeted/Committed contributions to/from reserves:	£	£
<ul style="list-style-type: none">• Increase in Grants Carried Forward	199,608	
<ul style="list-style-type: none">• Withdrawal from Theatres Maintenance Reserve	(59,000)	
<ul style="list-style-type: none">• Budgeted contribution to Reserves	41,050	
<ul style="list-style-type: none">• Self-insurance charges and proposed contributions	30,700	212,358
Contribution to reserves for future needs:		
<ul style="list-style-type: none">• Transfer to Business Rate Smoothing Reserve (paragraph 4.12.1)	480,174	
<ul style="list-style-type: none">• Transfer to Property Investment Risk Reserve	50,000	
<ul style="list-style-type: none">• Transfer to Theatres Capital Maintenance Reserve funded by levy payments	90,893	621,067
Contribution to reserves from general underspend:		
<ul style="list-style-type: none">• Carry Forward requests to Capacity Issues Reserve (see appendix 6)	425,900	
<ul style="list-style-type: none">• General Fund underspend transferred to General Fund Reserve (working balance)	25,000	
<ul style="list-style-type: none">• Unallocated General Fund underspend transferred to Capacity Issues Reserve	166,360	617,260
Total recommended net contributions to Reserves		1,450,685

If all the proposals in the above table are adopted, Worthing Borough Council will increase its General Fund Working Balance to £868,625 which, at 7% of net expenditure of £12.370m, is within the range of 6%-8% set by the Council. In addition the Council would retain earmarked revenue reserves of £3.214m (excluding revenue grants reserve), an increase of £0.664m over 31st March, 2018. The full listing of earmarked reserves is attached as **Appendix 3b**.

7.0 MINIMUM REVENUE PROVISION (MRP) REQUIREMENT 2018/19 AND DEBT POSITION

MRP Requirement for 2018/19

- 7.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 require the Councils to make a prudent provision within the accounts for repayment of debt. This provision is called the Minimum Revenue Provision (MRP) and is charged to revenue expenditure.
- 7.2 The Councils' MRP policy was approved by the Joint Strategic Committee at its meeting of 2nd June 2016 and was recommended for approval by Worthing Council at its meeting on 19th July 2016 and by Adur Council at its meeting on 21st July 2016. It was agreed that: firstly for any debt associated with

unfunded capital expenditure incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt.

This does not apply to Worthing Borough Council which had no debt as at 1st April 2008. Secondly, for both Councils' non-HRA capital expenditure which forms part of the Capital Financing Requirement (the CFR), (excluding loans to RSLs), after 1st April 2008, the MRP will be calculated as the annual amount required to repay the CFR using the Annuity Method over the life of the assets acquired. The option remains to use additional revenue contributions or capital receipts to repay debt earlier. Where a building is being constructed, the MRP will be set aside once the building has been completed. The CFR is a prescribed calculation which is used to measure the Councils' underlying need to borrow to finance all capital expenditure.

- 7.3 The MRP policy will ensure that, by the time debts are due to be repaid, sufficient funds will have been set aside.
- 7.4 As MRP is applied in the year after which capital expenditure is funded from borrowing, the MRP for 2018/19 relates to unfunded expenditure incurred up to and including 31st March, 2018. Voluntary MRP may be set aside, which can be offset in future years.
- 7.5 By applying the approved methodologies, described in paragraph 7.2, the following MRP determinations have been provided for in the 2018/19 accounts:
- For Adur District Council: £1,015,897. No Voluntary MRP was set aside for the HRA.
 - For Worthing Borough Council: £810,658, plus a voluntary provision of £300,000.

Debt Position at 31 March 2019

- 7.6 In recognition of the introduction of the HRA Self-Financing regime, the Councils' joint treasury management policy also includes a requirement to account separately for General Fund and HRA debt in accordance with the "two pool approach" recommended by CIPFA within the Treasury Management Code of Practice. This approach apportioned historic debt at 31 March 2012 between the HRA and General Fund in accordance with the Code guidance, and requires new borrowing from 1 April 2012 onwards to be attributed to either the General Fund or HRA according to the purpose for which it is obtained.
- 7.7 For Adur Council the separation of General Fund and HRA debt facilitates a comparison with the corresponding underlying need to borrow (the Capital Financing Requirement) i.e. capital expenditure not financed from internal resources. The purpose of the comparison is to enable General Fund and HRA treasury management decisions to be taken independently of each other, and in an equitable and transparent manner.

- 7.8 Accordingly, there follows a comparison of the respective debt outturn positions compared to the CFR for each Council, albeit that as Worthing does not have an HRA it therefore does not operate a two pool approach.

CFR v Debt Position at 31 March 2019	Adur District Council			Worthing BC
	General Fund	HRA	Total	General Fund Total
	£	£	£	£
Actual Long Term Debt 01/04/18	27,263,600	57,874,626	85,138,226	35,564,182
New Long Term Debt Raised in year	32,440,800	2,000,000	34,440,800	32,499,375
Long Term Debt Repaid in Year	(1,705,823)	(1,706,167)	(3,411,990)	(2,813,511)
Actual Long Term Debt 31/03/19	57,998,577	58,168,459	116,167,036	65,250,046

CFR v Long Term Debt Position at 31 March 2019	Adur District Council			Worthing BC
	General Fund	HRA	Total	General Fund Total
	£	£	£	£
Capital Financing Requirement (CFR)	63,147,548	60,102,737	123,250,285	70,674,109
(Over) / Under Borrowing	5,148,971	1,934,278	7,083,249	5,424,063

- 7.9 In addition to the amounts reported in the table above, Worthing also held temporary borrowing of £2m at 31st March 2019, which will mature fully by 18th June 2019. Some of this may be refinanced as new temporary borrowing if required. Adur did not hold any temporary borrowing at 31st March 2019.

- 7.10 For Adur Council the General Fund is under-borrowed by approximately £5.149m. The HRA is under-borrowed by £1.934m because, although actual debt is gradually repaid, the Council has not made any Voluntary Minimum Revenue Provision for 2018-19 and consequently the Capital Financing Requirement has not reduced. This position largely reflects the opening position at 1st April 2012 arising from the application of the two pool split, where-in the CIPFA methodology assumed the HRA was fully borrowed at the level of its CFR, so that any under or over borrowing at that time was fully attributed to the General Fund. The General Fund took out new long term borrowing to fund property purchases and the construction of Focus House in Shoreham.

- 7.11 Worthing is under-borrowed by £5.424m based on long term borrowing, which reflects the cumulative impact over a number of years of consistently using internal borrowing and short term borrowing as a cheaper source of funding capital investment. This has been a prudent measure in the climate of historically low interest rates to reduce the “cost of carry” (i.e. the difference between the interest charged on new borrowing compared to the interest foregone on cash balances used to fund capital expenditure that would

otherwise have been invested). New long term loans amounting to nearly £32.5m have been taken out in 2018-19, largely to fund property purchases.

8.0 ENGAGEMENT AND COMMUNICATION

8.1 The Corporate Leadership Team, Heads of Service and budget managers have all collaborated in the content of this report providing explanation and narrative on the outturn variances.

9.0 FINANCIAL IMPLICATIONS

9.1 There are no further financial implications. The report sets out the final outturn position with both Adur and Worthing presenting underspends against budget.

10.0 LEGAL IMPLICATIONS

10.1 Local authorities have a statutory duty under section 28 of the Local Government Act 2003, to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. Section 151 of the Local Government Act 1972 requires the Councils to make arrangements for the proper administration of their financial affairs.

11.0 CONCLUSION

11.1 The overall underspends for Worthing and Adur are most welcome at this time to help the Councils manage the challenging financial climate which they are currently grappling with. However, the nature of many of the underspends does not indicate an improved outlook for the revenue budget going forward, and pressures very much remain.

11.2 The Councils have had a difficult year with reduced funding and cost pressures to manage, but they have successfully addressed some significant issues. The underspends in 2018/19 have given the Councils the opportunity to contribute to reserves, which is welcome at a time when local government faces ongoing financial pressures.

Local Government Act 1972

Background Papers:

Reports to the Joint Overview and Scrutiny and Joint Strategic Committee

Revenue Budget 2018/19 Joint, Adur and Worthing

3rd Monitoring Revenue and Capital Reports Joint Strategic Committee, Adur District Councils and Worthing Borough Council – Report to the Joint Strategic Committee dated 5th March 2019

Accounts and Audit Regulations 2015

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SUSTAINABILITY AND RISK ASSESSMENT

1. ECONOMIC

Matter considered and no issues identified

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified

2.2 Equality Issues

Matter considered and no issues identified

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified

2.4 Human Rights Issues

Matter considered and no issues identified

3. ENVIRONMENTAL

Matter considered and no issues identified

4. GOVERNANCE

Matter considered and no issues identified