

2018/19 FINANCIAL OUTTURN REPORT

Head of Service/Contact:	Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	None
Other available papers (not attached):	<ul style="list-style-type: none">• Provisional outturn reports issued to all councillors on 14 June 2019• Statement of Accounts and Audit Findings reported as a separate agenda item

Report summary

This report summarises the Council's financial performance for 2018/19 and details the capital budgets to be carried forward for schemes where costs will be incurred in 2019/20.

Recommendation (s)

That the Committee:-

- (1) Receives the report on financial outturn for 2018/19;
- (2) Notes the carry forward £4.910 million budget for capital schemes to be added to the 2019/20 capital programme.
- (3) Agrees that the one-off gain, generated in 2018/19 from the 100% Business Rates Pilot, should be set-aside to mitigate the potential future impact of both business rates appeals and the Fair Funding Review on the Council's funding, as detailed in section 4.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council's four year Corporate Plan includes Managing our Resources as a key priority. The revenue budget and capital programme comprise the resources available for the delivery of Council services.

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2 Background

- 2.1 The Council's financial performance is reported to members quarterly through the budget monitoring process, and at year-end through this Financial Outturn Report. Provisional outturn was circulated via Members' Update on 14 June 2019.
- 2.2 Following the external audit (see separate agenda item), there have been no changes to the provisional figures reported on 14 June 2019.

3 General Fund Summary Position

- 3.1 In summary the final position for 2018/19 is shown in the following Table 1: -

Table 1 - General Fund Summary	Original Budget	Current Approved Budget*	Actual	Variance
	£'000	£'000	£'000	£'000
Strategy and Resources	2,697	1,899	1,709	-189
Environment & Safe Communities	1,948	2,332	2,479	147
Community & Wellbeing	6,017	6,432	6,406	-26
Capital charges	-2,879	-2,879	-2,879	0
Total Net Expenditure	7,783	7,783	7,715	-68
Funded by:				
Collection fund precept	6,290	6,290	6,290	0
Revenue Support Grant	0	0	0	0
Share of Business Rates	1,532	1,532	1,532	0
Transfer from Collection Fund	-39	-39	-39	0
Total Funding (Budget Requirement)	7,783	7,783	7,783	0
Surplus for the year	0	0	-68	-68

** includes changes to employee and support services allocations, asset rental recharges and IAS 19 pension adjustments from the original budget and reflects required changes in accounting practice.*

- 3.2 Net expenditure for the year is £68,000 less than the original budget. This will result in a contribution of £68,000 to the General Fund Working Balance, bringing the balance to £3,416,000 at 31 March 2019, calculated as follows:-

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Table 2 - General Fund Working Balance	£'000
Working Balance b/f at 01 April 2018	3,348
Surplus on General Fund for 2018/19	68
Working Balance as at 31 March 2019	3,416

- 3.3 At Q3, a probable outturn of £46,000 over budget had been forecast and reported to Leadership Team and Members.
- 3.4 Information on the main variations within each policy committee was circulated to all Councillors on 14 June 2019. In summary, the most significant adverse variances in 2018/19 are:
- 3.5 Domestic Refuse Collection (£108,000) - The net adverse variance is mainly as a result of the significant increase in comingled recycling gate fees. A report taken to Environment & Safe Communities Committee in October 2018 informed members of the situation. From April 2019, Surrey County Council have taken over domestic recycling and the associated budgetary risk with recycling gate fees.
- 3.6 Car Parking (£86,000) - The final adverse variance within car parks has improved to £86k (previously £119k at Q3), due to underachievement of income at the Ashley Centre, offset by a net favourable variance across all other car parks. Income from car parks will continue to be monitored and should adverse variances persist beyond Plan E's completion, options for addressing the budget gap will be considered as part of the budget setting process.
- 3.7 Venues (£81,000) – the Council's delayed exit from the Ebbisham Centre in May 2018 and the subsequent realignment of staffing resources resulted in an overspend across the venues of £145,000. This was partially offset by additional income and other sundry favourable variances totalling £64,000. The 2019 venues restructure has re-aligned staff resources with operational requirements, to ensure the venues are managed within the agreed budget going forward.
- 3.8 The most significant favourable variances in 2018/19 are from:
- 3.9 Investment Property (£168,000) – the commercial property, purchased on Roy Richmond Way (Longmead Business Park) in March 2018, generated net additional income of £168k in 2018/19. Due to the timing of the purchase, no associated rental income had been included in 2018/19's budget.

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- 3.10 Housing Benefits (£480,000) – the Council achieved a 99.4% recovery rate on housing benefits, compared to a budgeted recovery rate of 98.4%. Coupled with a favourable variance on recovery of past overpayments, this resulted in a £480k underspend within Housing Benefits for the year. Housing benefit budgets will be reviewed as part of the 2020/21 budget process to assess whether the favourable variance represents an underlying trend that could be factored into the budget going forward.
- 3.11 Housing/Temporary Accommodation (£149,000) - Net expenditure on temporary accommodation was under budget, principally due to the Council's successful homelessness cost reduction initiatives (which include property acquisitions and private landlord schemes) and additional rental income.
- 3.12 ICT (£155,000) – The ICT budget underspent owing to vacant posts in year and an underspend on software licences following an over-accrual from 2017/18.
- 3.13 Most of the outturn variances were forecast at quarter three and have already been reflected in the preparation of the 2019/20 budget. The ongoing impact of other variances, particularly within Housing Benefits, is being considered as part of the 2019/20 budget monitoring process and where appropriate will be incorporated into budget planning for 2020/21.

4 100% Business Rates Pilot

- 4.1 In 2018/19, the Council participated in a Surrey-wide pilot of central government's 100% business rates retention scheme. The pilot was successful in generating additional business rates retention across the county, with EEBC recognising £3.9m of business rates income for the year, compared to budgeted income of £1.5m.
- 4.2 This resulted in a one-off gain for the year of £2.4m, of which £1.6m relates principally to a partial unwinding of the business rates appeals provision, which had been set-aside in a prior year to cover potential future appeals against business rate bills, most notably from NHS properties.
- 4.3 Business rate regulations require this £1.6m to be retained in the collection fund until 2020/21, when it will become accessible by the Council. However, it must be noted that a number of business rates appeals, including the NHS claim, are still unresolved, meaning these funds may still be required in future to cover appeals should they be successful.
- 4.4 The remaining £0.8m from the gain is receivable by the Council immediately and has provisionally been transferred to the Business Rates Equalisation Reserve, with the majority of the reserve expected to be needed to offset potential future reductions in business rates income, which may arise from central government's ongoing Fair Funding Review.

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- 4.5 For 2019/20, the Council applied to the MHCLG, alongside the other Surrey districts, to remain a pilot area of the 100% scheme. However the Surrey application was unsuccessful and the Council has reverted to the national scheme from 2019/20.

5 Reserves

- 5.1 Transfers have been made to and from revenue and capital reserves in line with Council policy for the reserves and as approved for specific schemes during the year.

- 5.2 The following table shows the balances of strategic revenue reserves following preparation of the Statement of Accounts:

Table 3 - Strategic Revenue Reserves	Balance at 31/3/18	Balance at 31/3/19
	£'000	£'000
Interest Equalisation	631	631
Repairs and Renewals	237	274
Historic Buildings	3	3
Insurance	437	466
Hospital Cluster Interest	231	233
Community Safety	83	110
Property Maintenance	423	573
VAT Reserve	320	320
Housing & Planning Delivery Grant	176	176
Corporate Project Reserve (a)	2,574	3,249
Personalisation, Prevention & Partnership	111	73
Business Rate Equalisation Reserve (b)	2,244	3,066
Partnerships	28	28
Residential Property Acquisition Fund (c)	1,438	1,181
Development Contributions (d)	172	0
HIA Hardship Fund	71	75
Sports & Leisure Development Projects Fund	92	87
Property Income Equalisation Reserve (e)	1,349	2,180
Commuted Sums	1,965	1,941
Flexible Housing Support Grant (f)	185	492
Homelessness Reduction Act	19	19
Mortgage Rescue/Arrears Funding DCLG	15	11
Surrey Homeless Alliance Funding DCLG	9	5
Community Housing Fund	8	8
Basic Payments Scheme	28	31
Total Strategic Reserves	12,851	15,230

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5.3 The major movements in reserves during the year were as follows:

5.3.1 (a) Corporate Project reserve – The increase in the Corporate Project reserve (£675k) is principally due to the budgeted New Homes Bonus Grant transfer from the general fund into the reserve along with unused contingencies transferred at year-end.

5.3.2 (b) Business Rate Equalisation Reserve – Section 31 grants and a proportion of the gain from the 100% Business Rates Pilot are transferred to this reserve as part of the year end Collection Fund process, as detailed in section 7. The majority of the reserve is expected to be used to offset potential reductions in business rates income following central government’s Fair Funding Review from 2020/21. The reserve may also be used to offset any significant, future successful appeals against business rate bills.

5.3.3 (c) Residential Property Acquisition Fund – this fund was created in 2016/17 from New Homes Bonus funding and is used to purchase residential properties to support the Council’s housing activities. In 2018/19, the reserve was used to purchase one residential property for use as temporary accommodation.

5.3.4 (d) Developer Contributions – two funds were created in 2017/18 from contributions made by developers towards the Hollymoor Lane works and upgrades to paths on Epsom Common. The works were undertaken in 2018/19 with the contributions fully utilised.

5.3.5 (e) Property Income Equalisation Reserve – The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from investment properties purchased through the Commercial Property Acquisition Fund, which is supported by external borrowing. The reserve’s target is to accumulate sufficient funds to cover the potential loss of one year’s rental income from each property, as set out in the following table:

Table 4 - Property Income Equalisation (PIE) Reserve	Opening Reserve Balance	2018/19 Contribution to Reserve	Closing Reserve Balance	2019/20 Budgeted Rental Income
	£'000	£'000	£'000	£'000
Parkside	189	109	298	852
East Street	285	61	346	367
Marlow	475	219	694	1,755
Bracknell	400	274	674	1,770
Roy Richmond Way	0	168	168	225
Target Reserve Balance	1,349	831	2,180	4,969

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Following a contribution to the reserve of £0.83m in 2018/19, the reserve balance stands at £2.18m, £2.79m below its target balance of £4.97m. Next year, the budgeted contribution to the reserve is £0.66m; at this rate, the target balance is on track to be achieved in 2023/24.

- 5.3.6 (f) The Flexible Housing Support Grant, used to support homelessness prevention measures and to offset reduced rental income on temporary accommodation arising from benefit changes, has been transferred to reserves to support services in subsequent years. Grants held within reserves will be reviewed as part of the 2020/21 budget setting process.

6 Provisions

- 6.1 Income from the recovery of past housing benefit overpayments has previously been used to increase the bad debt provision for outstanding housing benefit overpayments debts, due to the impending transfer of benefits administration to central government. Outstanding debt at the end of 2018/19 totals £2.09 million. The balance of the provision now stands at £2.07m, meaning that 99% of the outstanding debt has been provided for at 31/03/2019 (98% at 31/03/2018).
- 6.2 Pensions have been treated within the accounts in accordance with recommended financial reporting standards for local authorities. The net liability at 31 March 2019 for accounting purposes is £39.5m compared to £34.0m at 31 March 2018. Full details on pension liabilities are included within the Statement of Accounts, which is prepared in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 19 (IAS19). A key assumption used in the FRS102/IAS19 calculation is the discount rate - also known as the assumed investment return - which is set with reference to high quality corporate bond yields on the accounting date. The FRS102/IAS19 accounting valuation does not comprise a full re-valuation of the fund and does not impact the Council's contributions.
- 6.3 A separate triennial funding valuation determines the Council's contributions into the fund. The next triennial valuation will be as at 31 March 2019, with the outcome expected in the Autumn. The triennial funding valuation uses a specific discount rate, set by the Fund to reflect a prudent expectation of future investment returns on the actual assets held; this represents a key difference to the FRS102/IAS19 calculation.

7 Capital Expenditure 2018/19

Core Capital Programme

- 7.1 A summary report of the 2018/19 capital programme was issued to all Councillors on 14 June 2019. The 2018/19 expenditure per Committee for the core capital programme is shown below:-

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Table 5 - Committee	2018/19 Approved Budget £'000	2018/19 Outturn Expenditure £'000	Variance £'000
Strategy & Resources	1,053	309	(744)
Environment	3,217	284	(2,933)
Community & Wellbeing	2,479	1,182	(1,297)
Total Core Programme	6,749	1,775	(4,974)

- 7.2 On the core capital programme, actual expenditure was £1.775 million, which is £4.974 million (or 74%) less than the current approved budget. Just over half of the underspend, £2.579 million, relates to Plan E works which are being delivered by Surrey County Council.
- 7.3 Budgets totalling £4.910 million are required to be carried forward into 2019/20 for schemes not completed in 2018/19, and a balance of £64,000 is no longer required where projects have either been completed under-budget, or are not being progressed.
- Property Acquisition Funds
- 7.4 During 2016/17 and 2017/18, the Council established funds totalling £80m and £300m for the purchase of in- and out-of-Borough commercial properties respectively, which can be financed from prudential borrowing. Table 6 below details the purchases made since the funds were established.
- 7.5 In April 2018, MHCLG issued updated local government investment guidelines, which restricts the ability of Councils to borrow to invest in commercial property. As such, at its meeting on 25 September 2018, Strategy and Resources Committee noted the suspension of further out-of-Borough investment property acquisitions, where the main purpose is purely to profit, until further guidance or case law is published that clarifies the Council's related vires. Consequently no commercial property acquisitions were made in 2018/19.
- 7.6 In 2016/17, the Council also established a £3m fund to purchase residential property, principally to assist the Council to manage homelessness and reduce associated costs. In 2018/19, one property was purchased for a total of £257k.
- 7.7 The remaining balances on the Property Acquisition Funds are shown in the following Table 6:

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Table 6 - Property Acquisition Funds	Commercial Property		Residential Property	Total
	In-Borough	Out-of Borough		
	£000	£000	£000	£000
Opening fund balance	80,000	300,000	3,000	383,000
Purchases during 2016/17	(19,206)	0	(811)	(20,017)
Purchases during 2017/18	(5,148)	(60,293)	(562)	(66,003)
Purchases during 2018/19	0	0	(257)	(257)
Closing fund balances at 31/03/2019	55,646	239,707	1,370	296,723

7.1 The financing of capital expenditure in 2018/19 is summarised below:

Table 7 – Capital Financing	2018/19
	Outturn £'000
<u>Expenditure</u>	
Core Programme	1,775
Property Acquisition Funds	257
Total Expenditure	2,032
<u>Financing</u>	
Capital Receipts Reserves	149
Capital Grants-DFG	520
Other Revenue Contributions	759
Section 106 & CIL	522
Other Capital Contributions	82
Total Financing	2,032
Total	0

8 Capital Receipts

8.1 The Council received two capital receipts totalling £207k in 2018/19; £149k for the disposal of its interest in the Ebbisham Centre, and £58k relating to the disposal of its interest in the Star Inn, Ewell.

8.2 The capital receipts reserve balance is shown in the following table:

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Table 8 - Capital Receipts Reserve	Capital Receipts Reserve £'000
Balance brought forward at 1 April 2018	4,889
Used to fund the 2018/19 capital programme	(149)
Capital receipts received in 2018/19	207
Closing Balance at 31 March 2019	4,947
Planned use for 2019/20 programme	(464)
Earmarked for previous schemes not yet complete (balance rolled forward to be agreed by S&R Committee in July 2019)	(1,088)
Earmarked for Residential Property Programme	(189)
Earmarked for Horton Chapel	(580)
Estimated balance at 31 March 2020	2,626

9 Financial and Manpower Implications

9.1 **Chief Finance Officer's comments:** All financial implications are set-out in the body of the report.

10 Legal Implications (including implications for matters relating to equality)

10.1 There are no legal implications arising from the report.

10.2 **Monitoring Officer's comments:** None arising from this report.

11 Sustainability Policy and Community Safety Implications

11.1 No implications arising from this report.

12 Partnerships

12.1 No implications arising from this report.

13 Risk Assessment

13.1 A risk assessment was included in the 2018/19 budget report. Monitoring arrangements during the year have allowed some corrective action to be taken on a number of budget variances, either during the year or as part of the Council's longer term service and financial planning.

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- 13.2 An updated risk assessment was included in the 2019/20 budget report. Overall the outturn position is broadly in line with what was anticipated when this risk assessment was completed in January. Further budget monitoring will be carried out on any specific service where the financial position was worse than anticipated.

14 Conclusion and Recommendations

- 14.1 Key points on the accounts for 2018/19 are as follows:-

14.1.1 The Council incurred increased costs on refuse collection and within the Venues, and car parking income underachieved the budget.

14.1.2 The Council successfully managed to reduce net expenditure within temporary accommodation, ICT, housing benefits and achieved additional income from investment property.

14.1.3 Overall net expenditure for the Council was £68,000 less than budgeted, resulting in a transfer of the same amount to the working balance.

14.1.4 The level of delivery on capital projects will be reviewed by the Capital Member Group.

- 14.2 Overall in 2018/19 the Council has maintained a prudent level of balances on revenue and capital reserves:-

Table 9 – Revenue and Capital Reserves	31 March 2018 £'000	31 March 2019 £'000
General Fund Working Balance	3,348	3,416
General Fund Strategic Reserves	12,851	15,230
Total Revenue Reserves	16,199	18,646
CIL	5,036	5,389
Capital Receipts	4,889	4,947
Total Capital Reserves	9,925	10,336

- 14.3 The Council faces a challenge to deliver future savings that will achieve a balanced budget, subject to the government's ongoing Fair Funding Review.

- 14.4 The capital programme included a number of schemes where provision needs to be carried forward into 2019/20. Funding remains in place to allow completion of these schemes however the Capital Member Group should examine the reason for slippage on individual schemes as part of the capital programme review.

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- 14.5 The Statement of Accounts and Audit Findings report are reported to this committee as a separate agenda item for approval.

Ward(s) affected: (All Wards);