

2020-21 PROVISIONAL FINANCIAL OUTTURN REPORT

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	None

Summary

This report summarises the Council's provisional financial performance for 2020/21 and details the capital budgets to be carried forward for schemes where costs will be incurred in 2021/22.

Recommendation (s)

The Committee is asked to:

- (1) Receive the report on provisional financial outturn for 2020/21;
- (2) Note the carry forward £2.471m budget for capital schemes to be added to the 2021/22 capital programme.
- (3) Note that the external audit of the 2020/21 Statement of Accounts is underway and is expected to complete in the Autumn. Should any material changes to outturn arise from the audit, these will be reported to this Committee in Autumn.

1 Reason for Recommendation

- 1.1 The Council's Financial Regulations require that the financial outturn performance and capital programme be reported to Strategy & Resources Committee.

2 Background

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- 2.1 The Council's financial performance is reported to members quarterly through the budget monitoring process, and at year-end through this report. Provisional outturn has already been circulated via Members' Update on 18 June 2021, this report formally presents the position to Strategy & Resources Committee.
- 2.2 The external audit of the Council's accounts is progressing and is expected to be completed and reported to this Committee by the statutory deadline of 30 November 2021.
- 2.3 There have been no changes to the provisional revenue outturn position reported on 18 June 2021 arising from the external audit thus far.
- 2.4 However, there has been one significant change to the reported balance on the Business Rates Equalisation Reserve, which has increased by £6.7m from £2.6m to £9.3m. The increase is principally because a net £6.6m in grants – awarded by MHCLG to compensate the Council for a £6.6m deficit on the business rates collection fund – have been set-aside in the business rates equalisation reserve to fund the £6.6m collection fund deficit by 2022/23, in accordance with collection fund regulations. The deficit on the collection fund is principally due to mandatory business rates reliefs awarded to eligible businesses during 2020/21, as instructed by central government. The change was identified during completion of collection fund accounting returns to MHCLG, and prior to the external audit starting.
- 2.5 The provisional outturn figures in this report are not expected to change, however, should there be any amendments following completion of the external audit, these will be reported back to S&R Committee.

General Fund Summary Position

- 2.6 In summary the outturn position for 2020/21 is:-

Table 1 - General Fund Summary	Original Budget	Current Approved Budget*	Actual	Variance
	£'000	£'000	£'000	£'000
Strategy and Resources	3,819	2,916	-494	-3,410
Environment & Safe Communities	2,154	2,320	4,925	2,605
Community & Wellbeing	6,439	6,754	7,602	848
Capital charges	-2,669	-2,247	-2,247	0
Total Net Expenditure	9,743	9,743	9,787	43
Funded by:				
Collection fund precept	6,713	6,713	6,713	0
Revenue Support Grant	0	0	0	0
Share of Business Rates	1,617	1,617	1,617	0

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Transfer from Collection Fund	1,413	1,413	1,413	0
Total Funding (Budget Requirement)	9,743	9,743	9,743	0
Deficit for the year	0	0	43	43

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

2.7 Net expenditure for the year is just £43,000 over the original budget, however, the outturn position includes £5.56m of government financial support, which is detailed within the following table:

Table 2 - Covid-19 Government Grants (from MHCLG, unless otherwise stated)	£'000	Included within Committee:
Income Compensation Scheme	3,082	Strategy & Resources
Covid-19 Grant	1,018	Strategy & Resources
Contain Outbreak Management Fund (MHCLG / SCC)	536	Community & Wellbeing
Contain Outbreak Management Fund (MHCLG / SCC)	186	Strategy & Resources
New Burdens - Business Grants Administration	375	Strategy & Resources
Rough Sleepers Grants	159	Community & Wellbeing
Clinically Extremely Vulnerable Persons Grant (SCC)	88	Strategy & Resources
Compliance, Enforcement & Environmental Health (MHCLG & SCC)	67	Environment & Safe Communities
New Burdens - Test & Trace Administration	23	Strategy & Resources
Re-opening High Streets Safely (European Fund)	29	Strategy & Resources
Total Covid-19 Government Support	5,563	

2.8 Without this £5.56m government support, the Council's adverse budget variance would have increased from £43,000 to £5.60m.

2.9 The £43,000 variance will result in a contribution from the General Fund Working Balance, as shown in the following table:

Table 3 - General Fund Working Balance	£'000
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Working Balance at 01 April 2020	3,426
Deficit on General Fund for 2020/21	(43)
Working Balance as at 31 March 2021	3,383

- 2.10 In late 2020, a probable outturn of £784,000 over budget had been forecast and reported to Leadership Team and Members. During the latter part of the year, officers have worked to optimise the Council's income compensation claim to MHCLG and further government grants have been received, as set out in Table 2. Combined with officers' mitigating action to reduce non-essential expenditure (including the corporate recruitment freeze for non-urgent vacant posts), these factors have contributed to the more favourable outturn position when compared to the probable outturn forecast.
- 2.11 Information on the main variations to budget were circulated to all members on 18 June 2021. The most significant adverse variances to budget in 2020/21 were as follows:
- Car parking (£2.49m) – During full lockdown, usage of car parks declined dramatically, resulting in a net income loss for the year of £2.49m. Car park usage levels have subsequently increased, but remain below pre-Covid levels. Usage levels are being continuously monitored and will be addressed within the Council's revised budget plans later in the year. The Council's car parks are currently budgeted to achieve £4.57m income per annum.
 - Venues, Sports & Leisure (£791,000) – Epsom Playhouse remained closed for 2020/21 with a resulting net loss of income from ticket sales and hire totalling £397,000 adverse. Bourne Hall and Ewell Court House were severely affected by social distancing and restricted gathering rules, with a net loss of room hire and café income totalling £205,000 adverse. Closures at the Rainbow Centre have reduced income from management fees by £236,000 adverse. Covid-19 restrictions prevented the running of sports events resulting in reduced costs of £47,000 favourable, mainly as staff were re-deployed to the Community Hub and the associated costs recharged within S&R Committee.
 - BECC, Community Hub, and central Covid-19 expenditure (£665,000) - The Borough Emergency Control Centre (BECC) and the Community Hub were essential to enable the Council to respond to the pandemic and support residents. The associated staffing costs, plus communications, additional cleaning and personal protective equipment, which were necessary to meet government guidance, totalled £665,000 for the year.

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- Homelessness (£695,000) - There were 101 households in nightly paid accommodation at year-end, well above the budgeted number of 58, resulting in unbudgeted expenditure of £323,000. Furthermore, to implement the government's 'Everybody In' initiative to house rough sleepers, unbudgeted costs of £372,000 were incurred. This additional expenditure totalling £695,000 was fully funded by government grants in 2020/21 – £536,000 from the Contain Outbreak Management Fund and £159,000 Rough Sleeper/Next Steps funding, resulting in a net nil cost to the Council.
- Commercial Property Income (£605k) - Income from Epsom & Ewell Property Investment Company was £477,000 adverse to budget, due to a lease re-negotiation at one property. Net income from other leased properties was £128,000 adverse to budget. Rent collections in the second half of the year exceeded expectations when compared to the probable outturn forecast, which had been for a £700,000 adverse variance.

2.12 The most significant favourable variances to budget in 2020/21 were as follows:

- Government Grant Support (£5.56m) – the council received additional one-off Covid-19 related grant funding of £5.56m, as set-out in Table 2.
- Staffing (£433,000) – To mitigate the adverse impact of Covid-19 on the Council's finances, officers implemented a freeze on non-essential recruitment during the year. Although this placed significant additional pressure on teams, it also generated a significant saving on employee costs of £433,000 across the Council, (£12.485m expenditure vs £12.918m budget). The main favourable staffing variances were within Tax Collection & Benefits (£115,000), Contact Centre & Business Support (£95,000), and Legal & Committee Services (£67,000).
- Budget plans are being kept under review and will continue to be reported to Members, with the next scheduled update due at S&R Committee and to Audit, Crime & Disorder, and Scrutiny Committee in the autumn.

3 Reserves

- 3.1 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.
- 3.2 The level of government support has enabled the Council to transfer to strategic reserves an additional £121k of Covid-19 grants and £575k to the Property Income Equalisation Reserve, thereby assisting in achieving the target balance for this reserve of £5.495m. The reserve transfers will provide ongoing resilience against the continuing negative impact of Covid-19 on services and commercial property tenants.

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

Table 4 - Strategic Revenue Reserves	Balance at 31/3/20	Balance at 31/3/21
	£'000	£'000
Interest Equalisation	400	400
Repairs and Renewals	359	390
Insurance	467	443
Community Safety	110	108
Property Maintenance	550	548
VAT Reserve (a)	251	199
Housing & Planning Delivery Grant	88	88
Corporate Project Reserve (b)	3,957	4,673
Personalisation, Prevention & Partnership	73	73
Business Rate Equalisation Reserve (c)	1,291	9,306
Residential Property Acquisition Fund (d)	1,161	1,066
HIA Hardship Fund	89	125
Sports & Leisure Development Projects Fund	86	87
Property Income Equalisation Reserve (e)	3,829	5,495
Commuted Sums	1,464	1,447
Flexible Housing Support Grant (f)	596	385
Basic Payments Scheme & Environmental Stewardship Grant	122	141
Other minor grants reserves	57	57
Covid Grants Reserve (g)	0	121
SubTotal Strategic Reserves	14,950	25,152
Collection Fund Surplus/(Deficit) (c)	1,136	(6,608)
Total Strategic Reserves and Collection Fund Account	16,086	18,544

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

- The VAT reserve has funded a £52k repayment to HMRC of overclaimed historic VAT on election expenses, as reported to Strategy & Resources Committee (30 March 2021).
- Corporate Project reserve – The £716k increase in the Corporate Project reserve is principally due to the budgeted New Homes Bonus Grant transfer

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of £385k from the general fund into the reserve, along with unused pension strain contingencies totalling £342k transferred at year-end.

- (c) Business Rate Equalisation Reserve – The balance has increased by £1.367m as expected due to the budgeted one-off gain - realised in 2020/21 in accordance with collection fund regulations - from the Council's participation, back in 2018/19, in the 100% Surrey business rates pilot. A further net £6.6m has been received in S31 grants from MHCLG to compensate the Council for a £6.6m deficit on the business rates collection fund. The £6.6m collection fund deficit arose principally due to mandatory reliefs awarded to eligible businesses during the year, as instructed by central government. The £6.6m deficit must be funded by 2022/23 in accordance with collection fund regulations, therefore the S31 grants have been set-aside in reserves for this purpose. Any remaining balance on the reserve is expected to be used to offset potential future reductions in business rates income following central government's Fair Funding Review from 2023/24. The reserve may also be used to offset any significant, future successful appeals against business rate bills.
- (d) Residential Property Acquisition Fund - £95k has been used to fund the conversion costs of Defoe Court, as agreed by Strategy & Resources Committee.
- (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 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 5 - Property Funded through Borrowing	Property Income Equalisation (PIE) Reserve			
	Opening Balance	2020/21 Movement	Closing Balance	Annual Rental Income
	£'000	£'000	£'000	£'000
64-74 East Street	389	(21)	368	367
Parkside House	388	464	852	852
Roy Richmond Way	187	38	225	225
Emerald House, East Street	33	403	436	436
2 Arlington Sq, Bracknell (EEPIC)	1,467	303	1,770	1,770
Cobham Centre, Marlow (EEPIC)	1,365	479	1,844	1,844
Total	3,829	1,666	5,495	5,495

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(f) Through budgeted contributions and transfers into the reserve totalling £1.666m, the Council has been able to achieve the target balance of £5.495m. The 2020/21 contribution of £1.666m consists:

- £755k budgeted contribution;
- £575k unbudgeted contribution of unused contingencies and support;
- £336k income from 2020's acquisition of Emerald House (East Street). Although this income has not yet been collected from the tenant (as there is an agreed rent free period), the income must be recognised in accordance with accounting standards that require the rent free period to be amortised over the full lease term.

Achieving the target balance is a significant milestone for the Council in terms of financial resilience, particularly as there is a heightened risk that drawdowns from the reserve may be needed in the coming years, depending on how future economic changes impact on property rental income streams.

(g) The Flexible Housing Support Grant has been used to support homelessness prevention measures during the year. Grants held within reserves will be reviewed as part of the 2022/23 budget setting process.

(h) Ringfenced Covid support grants totalling £121k have been transferred to reserves to provide resilience against the continuing negative impact of Covid-19 on services.

4 Provisions

4.1 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 2020/21 totals £1.67m (prior year £1.97m). The balance of the provision now stands at £1.66m, meaning that 99% of the outstanding debt has been provided for (also 99% at 31/03/2020).

4.2 Following an analysis of general debtors, the associated bad debt provision has increased by a net £320k to £664k at 31 March 2021, reflecting the current profile of outstanding debtors and to take account of the increased risk of debtor defaults due to the Covid-19 pandemic. Outstanding debtors will be monitored and managed during 2021/22 in accordance with the Council's debtor procedures.

4.3 Pensions have been treated within the accounts in accordance with recommended financial reporting standards for local authorities. The net liability at 31 March 2021 for accounting purposes is £46.2m compared to £37.4m at 31 March 2020. The increase is principally due to changes in the assumptions, used by the actuary, for future CPI inflation. Additional information on pension liabilities are included within the Statement of Accounts, which is prepared in accordance with International Accounting Standard 19 (IAS19). The IAS19 accounting valuation does not comprise a full re-valuation of the fund and does not impact the Council's contributions.

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- 4.4 The most recent full valuation was at 31 March 2019 and has been used to determine the Council's contributions from financial year 2020/21.

5 Capital Expenditure 2020/21

Core Capital Programme

- 5.1 A summary report of the 2020/21 capital programme was issued to all Councillors on 18 June 2021. The 2020/21 expenditure per Committee for the core capital programme is shown below:-

Table 6 Committee	2020/21 Current Approved Budget £'000	2020/21 Outturn £'000	Forecast Variance £'000
Strategy & Resources	895	349	(546)
Environment & Safe Communities	2,947	1,531	(1,416)
Community & Wellbeing	1,440	911	(529)
Total Core Capital Programme	5,282	2,791	(2,491)

- 5.2 On the core capital programme, actual expenditure was £2.791m, which is £2.491m less than the current approved budget. Nearly 50% of the underspend, £1.1m, relates to Plan E works which will be finalised by Surrey County Council in 2021/22.
- 5.3 Budgets totalling £2.471m are required to be carried forward into 2021/22 for schemes not completed in 2020/21, and a balance of £19.7k is no longer required where projects have either been completed under-budget, or are not being progressed.

Property Acquisition Funds – Commercial Property

- 5.4 The Council retains one in-Borough commercial property acquisition fund, which has a remaining balance of £49.6m available for investment. The fund can be financed from prudential borrowing. No commercial properties were acquired during 2020/21, although should opportunities arise in future, these will be explored as appropriate.
- 5.5 The Council formally closed its out-of-Borough commercial property acquisition fund in February 2020, as part of agreeing the Medium Term Financial Strategy 2020-24, in order to comply with the MHCLG's Statutory Guidance on Investments.

Property Acquisition Funds – Residential Property

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- 5.6 In 2016/17, the Council established a £3m fund to purchase residential property, principally to assist the Council to manage homelessness and reduce associated costs. No new purchases were made during 2020/21, but £95k was used to fund the revenue costs of making 87 East Street (Defoe Court) suitable for use as temporary accommodation, as agreed at S&R Committee in December 2018. A further £10k expenditure will be incurred in on this scheme 2021/22.
- 5.7 The remaining balances on the Property Acquisition Funds are shown in the following table. Please note that the £49.6m funds are not reserves that the Council holds; they are limits (approved by Full Council) up to which borrowing could be undertaken.

Table 7 - Property Acquisition Funds	Commercial Property (in-Borough)	Residential Property	Total
	£000	£000	£000
Opening fund balance	80,000	3,000	83,000
Purchases during 2016/17	(19,206)	(811)	(20,017)
Purchases during 2017/18	(5,148)	(562)	(5,710)
Purchases during 2018/19	0	(257)	(257)
Purchases during 2019/20	(6,077)	(20)	(6,097)
Purchases during 2020/21	0	(95)	(95)
Fund balances at 31/03/2021	49,569	1,255	50,824

- 5.8 The financing of capital expenditure in 2020/21 is summarised below:

Table 8 - Financing of Capital	2020/21 Current Approved Budget £'000
<u>Expenditure</u>	
Core Programme	2,791
Property Acquisition Funds	95
Total Expenditure	2,886
<u>Financing</u>	
Capital Receipts Reserves	257
Capital Grants-DFG	734
Budgeted Revenue Contributions	200
Revenue Reserves	95
Community Infrastructure Levy	1,600
Total Financing	2,886

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Total	0
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6 Capital Receipts 2020/21

6.1 The Council received no new capital receipts in 2020/21;

6.2 Capital receipts for 2020/21 are summarised below:-

Table 9 - Capital Receipts Reserve	£'000
Balance brought forward at 1 April 2020	4,535
Used to fund the 2020/21 capital programme	(257)
Used to fund Horton Chapel	(228)
Capital receipts received in 2020/21	0
Closing balance at 31 March 2021	4,050
Earmarked for previous schemes not yet complete (balance rolled forward to be agreed by S&R Committee in July 2021)	(922)
Planned use for 2021/22 programme	0
Earmarked for Residential Property Programme	(189)
Earmarked for Horton Chapel	(351)
Estimated balance at 31 March 2022	2,588

6.3 The level of reserves will be re-assessed by the Capital Member Group during this year's capital programme review.

7 Risk Assessment

Legal or other duties

7.1 Impact Assessment

7.1.1 A risk assessment was included in the 2020/21 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.

7.1.2 An updated risk assessment was included in the 2021/22 budget report. Further budget monitoring will be carried out on any specific service where the financial position was worse than anticipated.

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7.2 Crime & Disorder

7.2.1 None.

7.3 Safeguarding

7.3.1 None.

7.4 Dependencies

7.4.1 None.

7.5 Other

7.5.1 None.

8 Financial Implications

8.1 Financial implications are included in the body of the report.

8.2 **Section 151 Officer's comments:** The Council has performed well to achieve a revenue outturn position close to the overall budget – albeit with the support of government grant funding – in the context of the unprecedented financial and operational challenges that were presented by Covid-19. The reported outturn position is not expected to change, however, should there be any changes following completion of the external audit, these will be reported to S&R Committee with the external audit report.

8.3 The impact of Covid-19 continues to be monitored and will be reported in line with the Council's budget monitoring arrangements.

9 Legal Implications

9.1 None arising from the contents of this report.

9.2 **Monitoring Officer's comments:** None arising from the contents of this report.

10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

10.3 **Climate & Environmental Impact of recommendations:** None.

10.4 **Sustainability Policy & Community Safety Implications:** None.

10.5 **Partnerships:** None.

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11 Background papers

11.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2020/21 Budget Report to Full Council, February 2020

Other papers:

- Provisional outturn reports issued to all councillors on 18 June 2021