

2021-22 PROVISIONAL FINANCIAL OUTTURN REPORT

Head of Service:	Brendan Bradley, Head of Finance
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 2021/22 and details the capital budgets to be carried forward for schemes where costs will be incurred in 2022/23.

Recommendation (s)

The Committee is asked to:

- (1) Receive the report on provisional financial outturn for 2021/22;
- (2) Approve the carry forward £2.564m budget for capital schemes to be added to the 2022/23 capital programme.
- (3) Note that the external audit of the 2021/22 Statement of Accounts is underway and expected to complete in the Autumn. Should any material changes to outturn arise from the audit, these will be reported back to members.

1 Reason for Recommendation

- 1.1 This Committee has responsibility for the Council's overall budget framework; it is therefore important that members are made aware of the 2021/22 outturn position. The Financial Regulations also require that the budget carry-forward requests be approved by Strategy & Resources Committee.

2 Background

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- 2.1 The Council's financial performance is reported quarterly to members of Audit & Scrutiny Committee through the budget monitoring process. At year-end, the outturn position is formally reported to Strategy & Resources via this report, and to Audit & Scrutiny Committee via the Statement of Accounts report in the Autumn.
- 2.2 Provisional outturn has already been circulated to all members via Members' News in July, this report formally presents the position to Strategy & Resources Committee.
- 2.3 The external audit of the Council's accounts is progressing and is expected to be completed and reported to Audit & Scrutiny Committee by the statutory deadline of 30 November 2022.
- 2.4 No changes to the provisional revenue outturn position have arisen from the external audit thus far, and none are expected. However, should any amendments arise following completion of the external audit, these would be reported back to members.

General Fund Summary Position

- 2.5 In summary the outturn position for 2021/22 is:-

Table 1 – General Fund Summary	Original Budget	Final Approved Budget*	Actual	Variance
	£'000	£'000	£'000	£'000
Strategy and Resources	2,380	2,087	822	-1,265
Environment & Safe Communities	2,308	2,637	3,854	1,217
Community & Wellbeing	6,593	6,557	7,136	579
Capital charges	-2,669	-2,669	-2,669	0
Total Net Expenditure	8,612	8,612	9,142	530
Funded by:				
Collection fund precept	6,904	6,904	6,904	0
Covid-19/Lower Tier Support Grant	364	364	364	0
Share of Business Rates	1,652	1,652	1,652	0
Transfer from Collection Fund	-308	-308	-308	0
Total Funding (Budget Requirement)	8,612	8,612	8,612	0
Deficit for the year	0	0	530	530

* 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.

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- 2.6 Net expenditure for the year is £530,000 over the original budget, however, the outturn position includes £1.15m of Covid-19 related government financial support, which is detailed within the following table:

Table 2 – Covid-19 Government Grants for EEBBC	£'000	Included within Committee:
Income Compensation Scheme (from DLUHC)	506	Strategy & Resources
Environmental Health Grants (from SCC)	137	Environment & Safe Communities
New Burdens – Business Grants Administration (BEIS)	131	Strategy & Resources
Re-opening High Streets Safely/Welcome Back Fund (European Fund)	113	Strategy & Resources
Clinically Extremely Vulnerable Persons Grant (SCC)	105	Strategy & Resources
Contain Outbreak Management Fund (DHSC)	79	Strategy & Resources (£48k) Community & Wellbeing (£31k)
Test & Trace Administration (DHSC)	44	Strategy & Resources
Protect & Vaccinate (DLUHC)	23	Community & Wellbeing
Household Support Fund Administration (SCC)	17	Strategy & Resources
Total Covid-19 Government Support	1,154	

- 2.7 Without this £1.15m government support and all else being equal, the Council's adverse budget variance would have increased from £530,000 to £1.68m.
- 2.8 The £530,000 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
Working Balance at 1 April 2021	3,383
Deficit on General Fund for 2021/22	(530)
Working Balance at 31 March 2022	2,853

- 2.9 At 31 December 2021, an equivalent probable outturn of £1.12m over budget had been forecast and reported to Senior Management Team and Members. During the latter part of the year, officers have been able to apply further government grants, as set out in Table 2 which is the main reason for the more favourable outturn position when compared to the probable outturn forecast.

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2.10 Information on the main variations to budget were circulated to all members in July. The most significant adverse variances to budget in 2021/22 were as follows:

- Car parking (£1.2m) – Car Parking income was significantly impacted by the pandemic, particularly in periods when government restrictions were in place, resulting in a net income loss of £1.2m for the year. Although visitor numbers began to recover as government restrictions lifted and activity gradually resumed, usage remains below pre-pandemic levels, which appears to be due to changes in habits such as less people using the car parks for commuting. Car parking budgets have been reviewed during 2022/23 as part of the post-Covid budget re-basing exercise.
- Venues, Sports & Leisure (£0.44m) – Epsom Playhouse remained impacted by the pandemic during 2021/22 resulting net loss of income from ticket sales and hire totalling £200,000 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 £140,000 adverse. Closures at the Rainbow Centre reduced income from management fees by £80,000. The income losses (including for car parks) to 30 June 2021 formed part of the Council's Income Compensation claim to DLUHC.
- Commercial Property Income (£0.43m) – The adverse variance is principally due to:
 - £184,000 reduced net income at Parkside House following the new lease agreed in December 2021 (S&R Dec 2021);
 - £73,000 rent review income is now expected to be achieved in 2022/23 instead of 2021/22, as tenant negotiations remain ongoing. When the review completes, back rent may compensate the Council for this reduced 2021/22 income;
 - £54,000 income budgets were not achieved at 24 South Street and Cox Lane. South Street has since been let to Epsom Pantry and is due to start generating income in 2022/23 (as reported to S&R in July 2021), and work continues to re-let the Cox Lane property, following the previous tenant's departure last year;
 - Transfers to the Property Income Equalisation Reserve included £876,000 of back rent achieved in 2021/22 and a £1.7m dilapidations settlement, which have been set-aside to mitigate potential reduced future income at investment properties (as reported to S&R in Commercial Tenant Updates).

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- Planning & Building Control (£0.39m) – Since the pandemic began, the planning service has seen lower income resulting in a £217,000 adverse variance for 2021/22. This is due to a reduction in the number of larger applications received and an increase in smaller household applications for which the fee income does not cover costs. In addition, the outsourcing of Building Control to Elmbridge Building Control Service resulted in increased service costs, as agreed at S&R in September 2021.
- Homelessness (£0.15m) – During 2021/22, the Council provided housing support to increased numbers of households, resulting in elevated expenditure on nightly paid accommodation. The Council also supported new or extended government initiatives including Everybody In, Protect and Vaccinate, and Next Steps, incurring increased costs as a result. Compared to the Q2 forecast, the Council has been able to recover a higher than anticipated level of Housing Benefit rental income and been able to apply additional government grant income to reduce the overall net adverse variance down to £150,000. As a high priority, the Council continues to progress the development of its homelessness strategy and action plan, to manage demands on the service.

2.11 The most significant favourable variances to budget in 2021/22 were as follows:

- Government Grant Support (£1.15m) – the council received additional one-off Covid-19 related grant funding of £1.15m, as set-out in Table 2.
- Staffing (£583,000) – During 2021/22, the Council undertook a corporate re-structure, resulting in a temporarily higher number of vacant posts compared to the usual underlying vacancy rate. Although this placed significant additional pressure on teams, it also resulted in a reduction of £583,000 in employee costs for the year across the Council (£12.7m expenditure vs £13.3m budget). The main favourable staffing variances were within Tax Collection & Benefits and across Corporate Services (particularly Corporate Assurance, Legal Services & Business Support).
- Budget plans are being kept under review and will continue to be reported to Members, with the next scheduled quarterly update due at Audit & Scrutiny Committee in September.

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

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Table 4 – Strategic Revenue Reserves	Balance at 31/3/21	Balance at 31/3/22	Future Commitments	Uncommitted Balance
	£'000	£'000	£'000	£'000
Repairs and Renewals	391	456	0	456
Insurance	442	434	(25)	409
Property Maintenance	548	689	(186)	503
VAT Reserve	199	206	0	206
Business Rate/Collection Fund Equalisation Reserve (a)	9,306	5,158	(3,421)	1,737
Property Income Equalisation Reserve (b)	5,495	8,459	(2,941)	5,518
Commuted Sums	1,447	1,439	0	1,439
Subtotal – Contingencies unavailable for general use	17,828	16,841	(6,573)	10,268
Personalisation, Prevention & Partnership	73	73	0	73
Community Safety	109	104	0	104
Place Development Grants €	87	225	(225)	0
Residential Property Acquisition Fund	1,066	1,017	(290)	727
HIA Hardship Fund	124	124	0	124
Sports & Leisure Development Projects Fund	87	76	0	76
Housing/Homelessness Support Grants	385	332	(104)	228
Basic Payments Scheme & Environmental Stewardship Grant	141	142	0	142
Covid Grants Reserve (d)	121	163	(140)	23
Other smaller grants	57	28	0	28
Subtotal – Ringfenced funds for specific use	2,250	2,284	(759)	1,525
Corporate Project Reserve €	4,673	4,130	(2,628)	1,502
Interest Equalisation €	400	0	0	0
Subtotal – Unringfenced funds available for general use	5,073	4,130	(2,628)	1,502
Sub-Total Strategic Reserves	25,152	23,255	(9,960)	13,295
Collection Fund Account Surplus/(Deficit)	(6,608)	(2,714)	2,714	0
Total Strategic Reserves and Collection Fund Account	18,544	20,541	(7,246)	13,295

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

- (a) Business Rate Equalisation Reserve – As planned, £6.6m of S31 grants, received from DLUHC in 2020/21 to compensate the Council for the £6.6m business rates collection fund deficit (which arose in 2020/21 principally due to mandatory reliefs awarded to eligible businesses, as instructed by central government), have been applied in 2021/22. During 2021/22, the Council has received a further £2.6m in S31 grants from DLUHC to fund reliefs awarded during the year, which have been set-aside in the reserve as they must be used to fund the remaining deficit on the collection fund account in 2022/23. Any remaining balance on the reserve is expected to be used to offset

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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 future successful appeals against business rate bills and to manage minor variations in annual council tax income. To reflect that the reserve is used to manage both business rates and council tax income, it is proposed to re-name it as the Collection Fund Equalisation Reserve.

- (b) Property Income Equalisation Reserve – During 2021/22, the Council received £1.7m as a dilapidations settlement at Parkside House and £876k in back rent following rent reviews at Nonsuch and Longmead industrial estates. These receipts have been set-aside in reserves to cover future refurbishment work and reduced rental income at Parkside House, and to fund the 2022/23 revenue budget as planned following the lease renegotiation at Arlington Sq, Bracknell (agreed at S&R December 2020). The reserve aims to hold sufficient funds to mitigate risks associated with future rental income streams from investment properties purchased through borrowing. The reserve's uncommitted £5.52m balance substantially achieves its target to cover the potential loss of one year's rental income at each property, which cumulatively totals £5.54m.
- (c) Place Development Grants – Ringfenced grants have been transferred to reserves, to fund future place development/Local Plan related workstreams as agreed by LPPC Committee.
- (d) Ringfenced Covid support grants totalling a net £42k have been transferred to reserves to ensure the Council can fund a team to deliver the Household Support Fund and £150 council tax energy rebate scheme during 2022/23.
- (e) Corporate Project reserve – The interest equalisation reserve balance of £400k has been transferred to the corporate projects reserve, as supported by Financial Policy Panel in November 2021. £274k New Homes Bonus has also been transferred into the reserve, as budgeted. These additions have been offset by withdrawals to fund pension strain costs totalling £727k (reported to ACDS Committee in February 2022); £307k budgeted to fund the 2021/22 revenue budget, and £219k to fund agreed planning/local plan related workstreams. In addition, unspent 2021/22 budgets for health and safety (£6k) and corporate training (£30k) have been rolled forward (via the reserve) to be used in 2022/23. Training programmes disrupted by Covid-19 during 2021/22 will need to be delivered in 2022/23.

4 Provisions

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- 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 2021/22 totals £1.51 million (£1.68m at 31 March 2021). The balance of the provision stands at £1.50m, meaning that 99% of the outstanding debt has been provided for at 31 March 2022 (also 99% at March 2021).
- 4.2 Following an analysis of general debtors, the associated bad debt provision has increased by a net £291k to £955k at 31 March 2022, reflecting the current profile of outstanding debtors, which includes rent owed at East Street, and to take account of the increased risk of debtor defaults due to the 'cost of living' economic pressures. Outstanding debtors will be monitored and managed during 2022/23 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 2022 for accounting purposes is £36.8m compared to £46.2m at 31 March 2021. The decrease is principally due to changes in the assumptions, used by the actuary, around future interest/discount rates and CPI inflation. Additional information on pension liabilities is 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.
- 4.4 The most recent full valuation was at 31 March 2019 and determined the Council's contributions since 2020/21. The next full valuation will be at 31 March 2022. The results of this valuation, which will determine the Council's contributions from 2023/24, are still awaited from the Surrey Pension Fund actuary.

5 Capital Expenditure 2021/22

Core Capital Programme

- 5.1 A summary report of the 2021/22 capital programme was issued to all Councillors via Members News in July. The 2021/22 expenditure per Committee for the core capital programme is shown below:-

Table 6 – Core Capital Programme	2021/22 Current Approved Budget £'000	2021/22 Outturn £'000	Forecast Variance £'000
Strategy & Resources	851	333	(519)
Environment & Safe Communities	1,882	873	(1,009)

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Community & Wellbeing	1,616	529	(1,087)
Total Core Capital Programme	4,350	1,735	(2,615)

5.2 On the core capital programme, actual expenditure was £1.735m, which is £2.615m less than the current approved budget. The main projects contributing to the underspend, are the Disabled Facilities Grant (789k); replacement of EEBC lamp columns (£409k); Hogsmill stream repairs (£261k) and replacement of the CRM and data warehouse (£380k).

5.3 The following 2021/22 projects remain in progress and it is requested that the budgets be carried forward to 2022/23:

Table 7 – 2021/22 Capital Projects Still in Progress at 01/04/22	Remaining Budget £'000s	Funding Source
Disabled Facilities Grant	789	External Grant
Plan E works	335	CIL
ICT Programme of Works 21/22	60	Capital Receipts
Improvements to Great Dam	60	CIL
Replacement of EEBC lamp columns	409	CIL
Football Pitch Drainage Systems	90	S106
Harrier Centre hammer cage repairs	16 5	S106 External Grant
Playhouse Refurbishment	94 34	Capital Receipts Repairs & Renewals Reserve
Hogs mill streams and horse pond repairs	261	Capital Receipts
Replacement of CRM and Data Warehouse	380	Capital Receipts
Renewal of Town Hall lift controls	31	Capital Receipts
Total	2,564	

5.4 Budgets totalling £2.564m are requested to be carried forward into 2022/23 for schemes not completed in 2021/22, and a balance of £51k is no longer required where projects have either been completed under-budget or are not being progressed.

Property Acquisition Funds – Commercial Property

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- 5.5 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 2021/22, although should opportunities arise in future, these will be explored as appropriate.
- 5.6 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 government's Statutory Guidance on Investments.

Property Acquisition Funds – Residential Property

- 5.7 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 2021/22, but £10.5k was used to fund the revenue costs of making 87 East Street (Defoe Court) suitable for use as temporary accommodation; and a further £228k was incurred on works to 24 South Street.
- 5.8 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 8 - 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)
Purchases during 2021/22	0	(238)	(238)
Fund balances at 31/03/2022	49,569	1,017	50,586

- 5.9 The financing of capital expenditure in 2021/22 is summarised in the following table:

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Table 9 - Financing of Capital	2021/22 Current Approved Budget £'000
<u>Expenditure</u>	
Core Programme	1,735
Property Acquisition Funds	228
CIL Neighbourhood 15% Schemes	224
Vehicle Finance Lease	34
Horton Chapel*	303
Total Expenditure	2,523
<u>Financing</u>	
Capital Receipts Reserves	229
Capital Grants-DFG	455
Budgeted Revenue Contributions	300
Revenue Reserves	98
Community Infrastructure Levy	1,046
S106 receipts	361
Total Financing	2,489
Vehicle Finance Lease - to be financed in future years	34
Total	2,523

*This Horton Chapel expenditure represents part-payment of the original £1.45m grant, which as per the grant agreement, is paid in instalments to Horton Chapel Arts & Heritage Society. For clarity, this expenditure is not a new grant, but an instalment of the original grant award.

6 Capital Receipts 2021/22

- 6.1 The Council received no new capital receipts in 2021/22; capital receipt balances are summarised in the following table:-

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Table 10 - Capital Receipts Reserve	£'000
Balance brought forward at 1 April 2021	4,050
Used to fund the 2021/22 capital programme	(229)
Capital receipts received in 2021/22	0
Closing balance at 31 March 2022	3,821
Earmarked for previous schemes not yet complete (balance rolled forward to be agreed by S&R Committee in July 2022)	(826)
Estimated capital receipts expected in 2022/23	340
Planned use for 2022/23 programme	0
Estimated balance at 31 March 2023	3,335

6.2 During 2022/23, the Council has received a net receipt of £340k for properties at South Street transferred to Transform Housing Association.

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 2021/22 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 2022/23 budget report. Further budget monitoring will be carried out on any specific service where the financial position was worse than anticipated.

7.2 Crime & Disorder

7.2.1 None.

7.3 Safeguarding

7.3.1 None.

7.4 Dependencies

7.4.1 None.

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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 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 members with the external audit report.

8.3 The Council's financial position is continually monitored and future budget plans are presented as a separate agenda item to this Committee - see 2023/24 Strategic Financial Planning report.

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.

11 Background papers

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

Previous reports:

- 2021/22 Budget Report to Full Council, February 2021

Other papers:

- Provisional outturn reports issued to all councillors via Members News in July 2022