

## Financial Outturn Report 2017/18

<b>Report of the:</b>	Chief Finance Officer
<b>Contact:</b>	Lee Duffy
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	None
<b>Other available papers (not attached):</b>	<ul style="list-style-type: none"><li>• Provisional outturn reports issued to all councillors on 1 June 2018</li><li>• Statement of Accounts and Audit Findings reported as a separate agenda item</li></ul>

### Report Summary

This report summarises the Council's financial performance for 2017/18 and details the capital budgets to be carried forward for schemes where costs will be incurred in 2018/19.

### Recommendation (s)

That the Committee:-

- (1) Receives the report on financial outturn for 2017/18;
- (2) Notes the carry forward £2.114 million budget for capital schemes to be added to the 2018/19 capital programme.

## 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.

## 2 Introduction

- 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 01 June 2018.
- 2.2 Following the external audit (see separate agenda item), there have been no changes to the provisional figures reported on 01 June 2018.

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### 3 General Fund Summary Position

3.1 In summary the final position for 2017/18 is: -

#### General Fund Summary 2017/18

	<b>Original Budget</b>	<b>Current Approved Budget*</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Strategy and Resources	2,402	630	305	-325
Environment	1,878	3,023	3,566	543
Community & Wellbeing	6,244	7,237	7,005	-232
Capital charges	-2,879	-3,246	-3,246	0
<b>Total Net Expenditure</b>	<b>7,644</b>	<b>7,644</b>	<b>7,630</b>	<b>-14</b>
<b>Funded by:</b>				
Collection fund precept	6,045	6,045	6,045	0
Transitional Grant	83	83	83	0
Share of Business Rates	1,527	1,527	1,527	0
Transfer from Collection Fund	-10	-10	-10	0
<b>Total Funding (Budget Requirement)</b>	<b>7,644</b>	<b>7,644</b>	<b>7,644</b>	<b>0</b>
<b>Surplus for the year</b>	<b>0</b>	<b>0</b>	<b>-14</b>	<b>-14</b>

*\* 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 Information on the main variations within each policy committee was circulated to all Councillors on 01 June 2018.

3.3 Net expenditure for the year is £14,000 less than the original budget. This will result in a contribution of £14,000 to the General Fund Working Balance.

3.4 The working balance was £3,348,000 at 31 March 2018, calculated as follows:-

	<b>£'000</b>
Working Balance b/f at 01 April 2017	3,334
Surplus on General Fund for 2017/18	14
<b>Working Balance as at 31 March 2018</b>	<b>3,348</b>

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- 3.5 At Q3, a probable outturn of £21,000 over budget had been forecast and reported to Leadership Team and Members.
- 3.6 The most significant adverse variances in 2017/18 are:
- Refuse Collection (£273,000) – Employee and fleet costs had a combined adverse variance of £166k. In addition, recycling gate fees and trade waste tipping charges were £107k over budget.
  - ICT costs (£155,000) – the termination of the shared service with Elmbridge Borough Council resulted in final unbudgeted settlement payments to EBC and additional licence fees.
  - Venues (£67,000) – An overspend was incurred across the venues on staffing, the Council is currently in the process of undertaking a review of staffing resources at the venues to understand why this overspend has occurred with the aim of ensuring the most effective and efficient use of these resources and that actions are taken to mitigate this reoccurring in 2018/19.
- 3.7 The most significant favourable variances in 2017/18 are from:
- Homelessness (£345,000) – Measures implemented to manage homelessness, such as the Private Sector Leasing Scheme and the purchase of residential properties for use as temporary accommodation, have helped to reduce the Council's expenditure in this area. Homeless numbers reduced from a budgeted average of 40 households to 33 by year end.
  - Contingency for benefit reforms (£100,000) – This contingency was not drawn on in the year.
- 3.8 Most of the outturn variances were forecast at quarter three and have already been reflected in the preparation of the 2018/19 budget. The on-going impact of other variances is being considered as part of the 2018/19 budget monitoring process and where appropriate will be incorporated into budget planning for 2019/20.

## 4 Reserves

- 4.1 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.
- 4.2 The following table shows the balances of strategic revenue reserves following preparation of the Statement of Accounts:

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<b>Strategic Revenue Reserves</b>	<b>Balance at 31/3/17 £000</b>	<b>Balance at 31/3/18 £000</b>
Interest Equalisation	631	631
Repairs and Renewals	338	237
Historic Buildings	3	3
Insurance	458	437
Hospital Cluster Interest	230	231
Community Safety	81	83
Property Maintenance	402	424
VAT Reserve	216	319
Housing & Planning Delivery Grant	176	176
Corporate Project Reserve (a)	1,520	2,574
Personalisation, Prevention & Partnership Reserve	321	111
Business Rate Equalisation Reserve (b)	864	2,245
Partnerships	28	28
Residential Property Acquisition Fund (c)	2,000	1,438
Development Contributions (d)	0	172
HIA Hardship Fund	43	71
Sports & Leisure Development Projects Fund	0	92
Property Income Equalisation Reserve (e)	76	1,349
Commutated Sums	1,965	1,965
Flexible Housing Support Grant (f)	0	185
Homelessness Reduction Act (f)	0	19
Mortgage Rescue/Arrears Funding DCLG (f)	0	16
Surrey Homeless Alliance Funding DCLG (f)	0	10
Community Housing Fund (f)	0	8
Basic Payments Scheme (f)	0	28
<b>Total Strategic Reserves</b>	<b>9,353</b>	<b>12,851</b>

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

- (a) Corporate Project reserve – The large increase in the Corporate Project reserve (£1.05m) is due to the unallocated New Homes Bonus Grant transfer from the general fund into the reserve.
- (b) Business Rate Equalisation Reserve – Section 31 grants and safety net contributions relating to Business Rates are transferred to this reserve as part of the year end Collection Fund process. The majority of the reserve is expected to be used to offset an anticipated shortfall in business rates income in 2019/20, due to appeals against business rate charges.
- (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 2017/18, the reserve was used to purchase two residential properties for use as temporary accommodation.
- (d) Development Contributions – £90k was received from Orbit Homes in December 2017 to fit-out the retail unit within the Hollymoor Lane development. £85k was received from Linden Homes in June 2015. This contribution had previously been held as a creditor balance, but since it is not repayable to the developer, it has been transferred to reserves. The contribution is earmarked for the protection of the fuel pipeline on Epsom Common (see report elsewhere on this Agenda).
- (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:

Property Income Equalisation (PIE) Reserve	2018/19 Budgeted Rental Income	2017/18 Contribution to PIE Reserve
	£'000	£'000
Parkside	837	222
East Street	493	176
Marlow	1,713	475
Bracknell	1,770	400
Roy Richmond Way	236	0
<b>Target Reserve Balance</b>	<b>5,049</b>	<b>1,273</b>

Following a contribution of £1.27m to the reserve in 2017/18, the reserve balance stands at £1.35m, £3.70m below its target balance of £5.05m. In

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2018/19, the budgeted contribution to the reserve is £675k; at this rate, the target balance is expected to be achieved in 2023/24.

- (f) Various other grants, including the Flexible Housing Support Grant to support homelessness prevention measures and to offset the reduced rental income on temporary accommodation arising from benefit changes, have been transferred to reserves to support services in subsequent years. Grants held within reserves will be reviewed as part of the 2019/20 budget setting process.

### **5 Provisions**

- 5.1 Income from the recovery of past housing benefit overpayments has been partially used to increase the bad debt provision for outstanding housing benefit overpayments, due to the impending transfer of benefits administration to central government under 'universal credit'. Outstanding debt at the end of 2017/18 stands at £2.45m. After making an additional net contribution of £356k to the provision during 2017/18, the provision balance stands at £2.39m. This means that 98% of the outstanding debt has been provided for at 31/03/2018 (84% at 31/03/2017).
- 5.2 Pensions have been treated within the accounts in accordance with recommended financial reporting standards for local authorities. The net liability at 31 March 2018 for accounting purposes is £34.0m compared to £33.3m at 31 March 2017. 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.
- 5.3 The most recent full valuation was at 31 March 2016. The next full valuation will be carried out at 31 March 2019, and will be used to determine the Council's contributions from financial year 2020/21.

### **6 Capital Expenditure 2017/18**

#### Core Capital Programme

- 6.1 A summary report of the 2017/18 capital programme was issued to all Councillors on 01 June 2018. The 2017/18 expenditure budget per Committee for the core capital programme is shown below:-

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<b>Committee</b>	<b>2017/18 Original Budget  £'000</b>	<b>Carry forwards from 2016/17  £'000</b>	<b>Additions during 2017/18  £'000</b>	<b>2017/18 Current Approved Budget  £'000</b>
Strategy & Resources	291	319	0	610
Environment	267	516	0	783
Community & Wellbeing	691	1,496	237	2,424
<b>Total</b>	<b>1,249</b>	<b>2,331</b>	<b>237</b>	<b>3,817</b>

6.2 The original 2017/18 budget was uplifted following approval at June 2017 S&R Committee to carry forward 2016/17 budgets totalling £2.331 million for schemes that were still in progress. The additions during 2017/18 comprise £123k for the Rosebery Park Pond project, funded from S106 and an additional £114k for Disabled Facilities Grant projects funded by central government grant.

6.3 The actual expenditure on the core programme for 2017/18 is summarised below:-

<b>Committee</b>	<b>2017/18 Approved Budget  £000</b>	<b>2017/18 Outturn Expenditure  £000</b>	<b>Variance   £000</b>
Strategy & Resources	610	175	(435)
Environment	783	273	(510)
Community & Wellbeing	2,424	801	(1,623)
<b>Total</b>	<b>3,817</b>	<b>1,249</b>	<b>(2,568)</b>

6.4 On the core capital programme, actual expenditure is £1.249 million, which is £2.568 million (or 67%) less than the £3.817 million budget.

6.5 Budgets totalling £2.114 million have been carried forward into 2018/19 for schemes not completed in 2017/8, and a balance of £454k is no longer required where projects have either been completed under-budget, or are not being progressed. The £454k budget comprises £275k of S106, £129k of capital receipts, and £50k other contributions.

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### Property Acquisition Funds

- 6.6 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. In 2017/18, the Council purchased one investment property in the Borough for £5.1m. Through its subsidiary company, EEPIC, two investment properties were purchased out-of-Borough for a combined £60m.
- 6.7 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. In 2017/18, two properties were purchased for a total of £562k.
- 6.8 The remaining balances on the Property Acquisition Funds are shown in the following table:

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	(19,203)	0	(811)	(20,017)
Purchases during 2017/18	(5,148)	(60,293)	(562)	(66,003)
<b>Closing fund balance at 31/03/2018</b>	<b>55,646</b>	<b>239,707</b>	<b>1,627</b>	<b>296,980</b>

- 6.9 The financing of capital expenditure in 2017/18 is summarised below:

	2017/18 Outturn
	£'000
<b>Expenditure</b>	
Core Programme	1,249
Property Acquisition Funds	66,003
<b>Total Expenditure</b>	<b>67,252</b>
<b>Financing</b>	
Capital Receipts Reserves	505
Capital Grants-DFG	396
Other Revenue Contributions	626



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External Borrowing	45,293
Internal Borrowing	20,148
Section 106 & CIL	234
Other Capital Contributions	50
<b>Total Financing</b>	<b>67,252</b>
<b>Total</b>	<b>0</b>

6.10 The figures above include three changes since Q3 monitoring. The first is a movement of £654k from capital receipts to CIL funding following agreement at S&R Committee in April 2018 to fund the cemetery extension project from CIL. The second is an increase to S106 to reflect the additional funding for Rosebery Park pond. Finally the correction of a sum of £38k which was reported as being funded from revenue contributions but which should be from capital receipts.

## 7 Capital Receipts 2017/18

7.1 The Council received two capital receipts totalling £223k in 2017/18; £221k for a property sold by Rosebery Housing Association, and £2k relating to a vehicle.

7.2 Capital receipts for 2017/18 are summarised below:-

<b>Capital Receipts Reserve</b>	<b>£'000</b>
<b>Balance brought forward at 1 April 2017</b>	<b>4,893</b>
Used to fund the 2017/18 capital programme	(505)
Funds returned due to substitution of CIL funding	117
Prior years receipts applied	161
Capital receipts received in 2017/18	223
<b>Closing Balance at 31 March 2018</b>	<b>4,889</b>
Planned use for 2018/19 programme	(693)
Earmarked for previous schemes not yet complete	(386)
Anticipated capital receipts in 2018/19	210
<b>Estimated balance at 31 March 2019</b>	<b>4,020</b>

7.3 The planned use of receipts to fund the 2018/19 programme has increased by £8k from the £685k agreed by Full Council in February 2018, following a delegated decision to increase the Playhouse changing room budget following the competitive tendering exercise. The level of reserves will be re-assessed by the Capital Member Group during this year's capital programme review.

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### 8 Legal Implications (including implications for matters relating to equality)

8.1 There are no legal implications arising from the report.

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

### 9 Risk Assessment and Conclusions

9.1 A risk assessment was included in the 2017/18 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.

9.2 An updated risk assessment was included in the 2018/19 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.

9.3 Key points on the accounts for 2017/18 are as follows:-

9.3.1 The Council incurred increased costs on refuse collection and ICT services.

9.3.2 The Council successfully managed to reduce expenditure on homelessness.

9.3.3 Overall net expenditure for the Council was £14,000 less than budgeted, resulting in a transfer of the same amount to the working balance.

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

9.4 Overall in 2017/18 the Council has maintained a prudent level of balances on revenue and capital reserves:-

	31 March 2017 £'000	31 March 2018 £'000
General Fund Working Balance	3,334	3,348
General Fund Strategic Reserves	9,353	12,851
<b>Total Revenue Reserves</b>	<b>12,687</b>	<b>16,199</b>
CIL	3,835	5,036
Capital Receipts	4,893	4,889
<b>Total Capital Reserves</b>	<b>8,728</b>	<b>9,925</b>

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- 9.5 The Council faces a challenge to deliver future savings that will achieve a balanced budget with further substantial reductions in government grant funding.
- 9.6 The capital programme included a number of schemes where provision needs to be carried forward into 2018/19. 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.
- 9.7 The Statement of Accounts and Audit Findings report are reported to this committee as a separate agenda item for approval.

**WARD(S) AFFECTED: ALL**