Executive Report

Ward(s) affected: All

Report of Chief Finance Officer

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Revenue Outturn Report 2018-19

Executive Summary

General Fund (GF) Revenue Account

Overall, the outturn on the General Fund was £1,851,116 less than we originally budgeted, which reflects our continued sound financial management.

The report sets out the major reasons for the variance. At service level after adjustment for movements to and from reserve, the projected outturn is £168,000 higher than the latest estimate.

Our net income from interest receipts is £1,641,694 more than estimated and the minimum revenue provision (MRP) for debt repayment is £405,453 lower than estimated. The general fund summary is set out at **Appendix 1** and reasons for the major variances by service are set out in **Appendix 2** (which excludes depreciation and capital charges). The Chief Finance Officer, in consultation with the Leader of the Council and the Lead Councillor for Finance have used their delegated authority to transfer the underspend to the Invest to Save Reserve to support the transformation agenda.

Earmarked reserves

The closing balance on all the Council reserves are set out in **Appendix 3** together with the ongoing policy for each.

Collection Fund

2018-19 was the fourth year of the Business Rates Retention Scheme (BRRS) and it continues to cause volatility in the Council's accounts. The Business Rates balance on the Collection Fund is particularly susceptible to movements in the number and value of appeals that businesses have made against their rateable values. We have no control over these appeals, and have limited information from the Valuation Office to help us assess the potential impact.

The Collection Fund revenue account for the year is set out in **Appendix 4**. There is an overall deficit on the Collection fund of £4.9 million.

The outturn position has been included in the Statement of Accounts signed by the Chief Financial Officer on 31 May 2019 which will be subsequently audited by Grant Thornton. The Corporate Governance and Standards Committee will review the audited accounts at its meeting on 25 July.

This report will also be considered by the Corporate Governance and Standards Committee at its meeting on 13 June 2019. The Committee's comments in respect of the outturn position will be reported to the Executive at its meeting.

Recommendation to Executive

That the Executive notes the Council's final outturn position and endorses the decisions, taken under delegated authority, to transfer the amounts set out in Section 5 of the report to the relevant reserves.

Reasons for Recommendation:

- To note the final outturn position and delegated decisions taken by the Chief Finance Officer, which have been, included within the statutory accounts the Chief Finance Officer signed at the end of May.

- To facilitate the on-going financial management of the Council.

1. Purpose of Report

1.1 This report gives the final position on the General Fund and the Collection Fund revenue accounts for the 2018-19 financial year. It explains the major variances from the General Fund revised estimate and reports how the available balance has been used.

1.2 The outturn position on the General Fund Capital Programme and the Housing Revenue Account has been included in separate reports within the agenda papers.

2. Strategic Priorities

2.1 Good financial management underpins the achievement of the Council's strategic framework.

3. Background

3.1 In accordance with the Accounts and Audit (England) Regulations 2015, the timetable for signing, approval and publication of the statement of accounts is as follows:

- no later than 31 May the Chief Finance Officer (CFO) must sign and date the statement of accounts and certify that it presents a true and fair view
- the audit will take place after 31 May and conclude before the final accounts are presented to councillors for approval
- before completion of the audit, the accounts will be open for scrutiny by the public for 30 working days. The accounts will be open for inspection from 31 May 2019 to 12 July 2019 and we have published the dates on our website
- the CFO must re-certify the statement of accounts prior to its approval by the Council or a committee

- no later than 31 July, the Council or a committee must consider and approve the statement of accounts, which are then signed by the person presiding at the meeting. The Corporate Governance and Standards Committee will be asked to consider and approve the audited accounts at its meeting on 25 July 2019.
- we must publish the accounts by 31 July 2019.

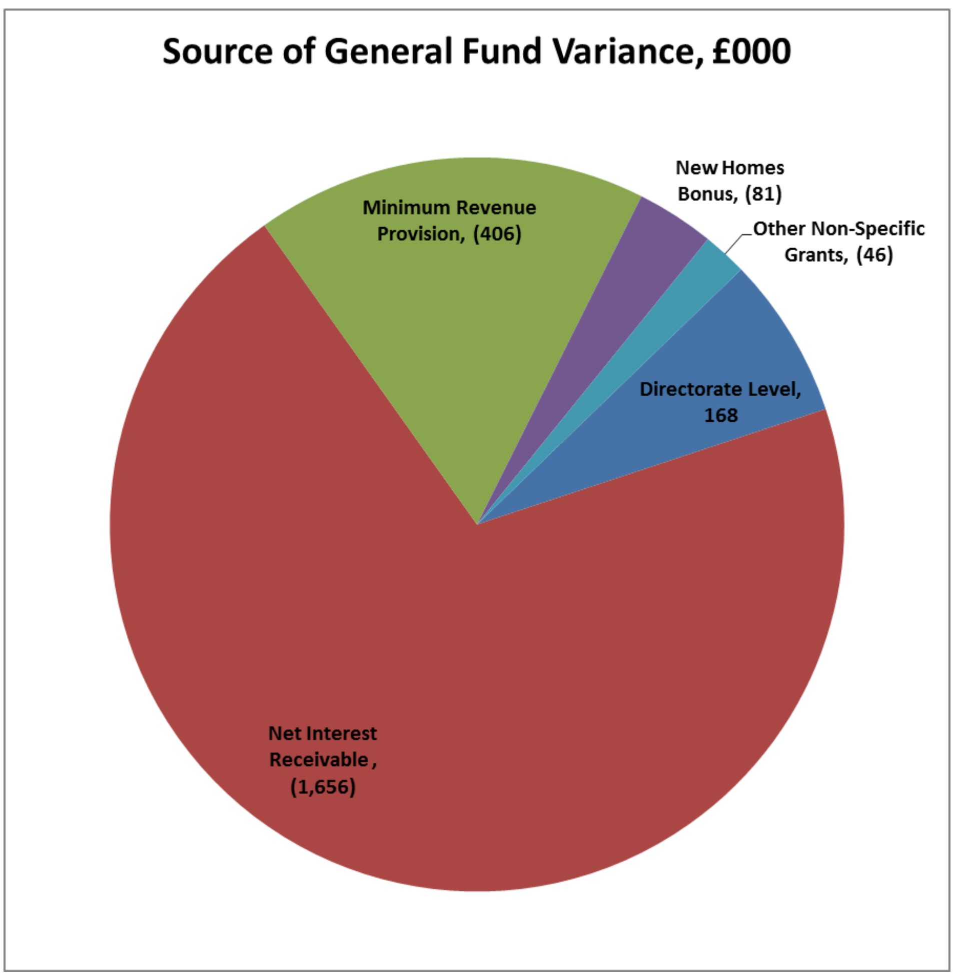
3.2 This report sets out the final position on two revenue accounts – General Fund and Collection Fund.

3.3 Officers have included the impact of the final position in the statutory statement of accounts, which the CFO signed on 31 May 2019. Grant Thornton will do the external audit during June.

4. General Fund Revenue Account

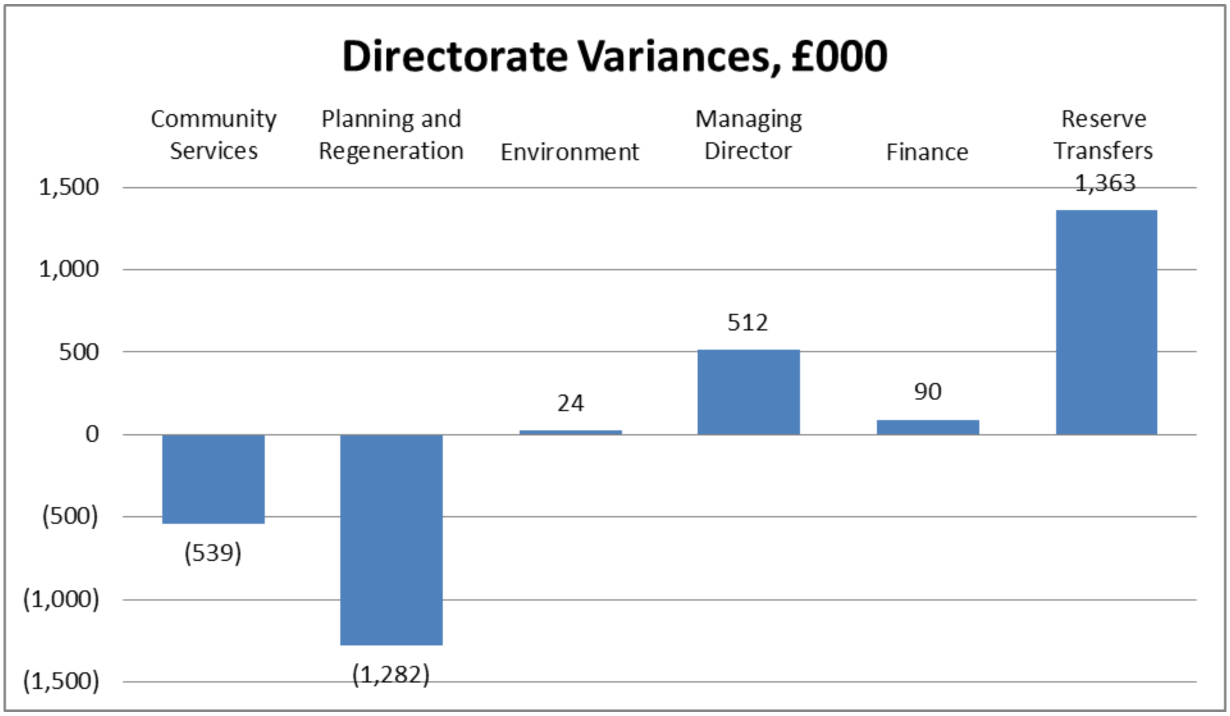
<u>Summary of Outturn Position</u>

4.1 The overall variance on the General Fund is net expenditure £1.85 million less than budget. This arises from four areas; the Directorates, external interest received, the Minimum Revenue Provision cost and non-specific government grants. This is set out in the chart below:



Directorates

4.2 The directorates are approximately £0.16 million over budget overall, which equates to around 1.7% of the relevant net budgeted revenue expenditure. However, there are significant differences in the position of each directorate, as shown in the chart below.



4.3 **Appendix 2** provides explanations of any service variances above £50,000 within each directorate.

4.4 We have also analysed the directorate variance by type of expenditure or income across all services and the following are the major differences:

Subjective Variance Summary	**£000**	**Total £000**
Increased expenditure		
increased utility and rates costs	293	
Increased payments to contractors & bought in services	329	
increased bad debt provisioning	984	
increased plant, equipment, miscellaneous and materials costs	367	
increased staffing costs, incl agency, casual, temporary staff and benefit accrual	211	
increased external legal advice costs	320	
		2,504

Decreased expenditure		
reduction in scanning costs	(179)	
reduction in backfunding of superannuation costs	(206)	
reduction in irrecoverable VAT costs incurred	(153)	
reduction in repair and maintenance programme costs	(475)	
inflation lower than anticipated	(119)	
		(1,132)
Increased Income		
income resulting from VAT refund	(252)	
increased Crematorium fee income	(648)	
increase in rental income	(210)	
increase in Housing Benefit overpayment recovery (net of payments to claimants)	(812)	
		(1,922)
Decreased Income		
reduction in off-street meter income	412	
reduction in sponsorship and miscellaneous income	331	
reduction in software licensing costs	(77)	
reduction in building control fees	52	
		718
TOTAL Directorate Variance by type of expenditure		**168**

Interest receivable

4.5 The weighted average interest rate achieved on our investment portfolio was 1.42% against budget, which was 1.61%. We had higher balances than we estimated when we set the budget and therefore net interest received (after paying interest on external loans) was £1,325,506 more than revised estimate. The higher balances come from having more cash than estimated at the start of the year and slippage in the 2018-19 capital programme.

4.6 The General Fund pays interest to the Housing Revenue Account (HRA) on its balances. The increase paid in 2018-19 was £348,285 lower than budgeted and is a consequence of the application of a risk-free interest rate on HRA reserve balances reflecting the allocation of risk between the general fund and the HRA.

4.7 Overall, net interest received by the General Fund was £1,641,694 more than estimated (fair value adjustment)

Minimum Revenue Provision (MRP)

4.8 Minimum Revenue Provision is a charge to the revenue account for unfinanced capital expenditure. The 2018-19 budget was based on the estimated capital-financing requirement (CFR) at the end of the previous year (31 March 2018) and was £1,200,643 based on an estimated CFR of £93.8 million. The actual General Fund CFR at 31 March 2018 was £82.16 million, which generated a minimum revenue provision of £795,189 (£405,454 lower than the revised budget).

Transfers to reserves

4.9 The majority of transfers to and from reserves are opposite accounting entries to either Revenue Contributions to Capital Outlay (RCCO) or items within the service accounts (and therefore do not affect the overall position). The transfers that are not service related and affect the total net expenditure that were included in the 2018-19 budget are:

- Business Rates Equalisation reserve; increased contribution of £392,000 (see paragraph 4.17)
- New Homes Bonus (NHB) reserve; in accordance with the Council's policy to transfer some of the new homes bonus grant received in the year to reserve, £200,000 was transferred to the reserve. The Council has also used £551,500 of the NHB reserve in year to pay for schemes detailed in paragraph 6.10.

4.10 We also contributed around £752,000 to the carry forward reserve for projects that were on going at the end of the financial year.

4.11 **Appendix 3** gives a full list of the balances on earmarked reserves and the purpose for which they were established.

Business Rates Retention Scheme (BRRS)

4.12 The Government introduced the Business Rates Retention Scheme (BRRS) from 1 April 2013 to replace the Formula Grant system of distributing grant to local authorities.

4.13 The scheme includes a baseline level of funding and allows the Council to keep an element of business rate income above the baseline. However if the business rate income is lower than the baseline, the Council bears the loss up to 7.5% of the baseline, after which there is a safety net payment. If estimated income were above the baseline, we would normally have to pay a levy of 50% of the additional income to the government.

4.14 However, for 2018-19 we were part of the Surrey business rates pilot, along with all the other Surrey District and Borough Councils and Surrey County Council. Being a business rates pilot area, meant that across the area we keep all of the additional income generated above the baseline funding level. The additional income will be distributed to each authority in line with the pilot agreement. The system is far more volatile than the old one (where the amount of grant was fixed and known in advance of the budget being set) and carries more risk for the Council.

4.15 When setting the budget we expected our business rate income to be higher than the baseline funding level and budgeted to receive a gain from being in the business rates pilot of £352,000. We also budgeted to contribute £2.5 million of business rates income to the business rates equalisation reserve. This is in line with our medium term financial strategy, to help mitigate the volatility in funding caused by the business rates scheme and the Council's redevelopment plans for the town centre.

4.16 When we set our 2018-19 budget, we projected the business rate income we would receive (£87.1 million of which the Council's 30% share is £26.1 million) and provided this estimate to the government in our NNDR 1 return. At the end of the year, we update the data based on actual income (£95.4 million of which the Council's share is £28.6 million) and inform the government in our NNDR 3 return.

4.17 The reason for the increase in business rates income between the estimated amount and the actual for 2018-19 is due to a significant decrease in the provision for appeals of £6.5 million. The provision is an allowance for reductions in business rates payable because of appeals made by the rate payer to the Valuation Office (VO) in 2018-19. Due to changes under the check challenge and appeal system, the number of appeals against the revaluation in 2017 have not been as we initially expected and so we have reduced our provision accordingly. The table below shows the difference between the actual and estimated income from business rates and the resulting impact on the levy payment:

Business Rates Retention Final Summary	**2018-19 Budget £0**	**2018-19 Actual £0**	**2018-19 Variance £0**
BRRS – tariff	22,269	22,269	0
BRRS – tariff adjustment from MHCLG	(476)	(476)	0
BRRS – surrey pilot gain	(352)	(973)	(621)
BRRS - equalisation reserve transfer	2,097	2,490	393
	23,539	**23,310**	**(229)**
BRates Collection fund deficit	53	53	0
BRRS - s31 grant	(1,413)	(1,184)	(229)
BRRS - retained income	(26,159)	(26,159)	0
BRRS - net position	**(3,980)**	**(3,980)**	**0**

The Council's current policy is to transfer its share of the levy or safety net payment to the business rates equalisation reserve to help smooth the volatility in income from business rates under the BRRS and to help us manage the fluctuations in our business rate income that will occur as we carry out our development plans for the town centre.

S31 grant relating to Council Tax

4.18 The government has introduced a council tax discount for certain types of annexe and compensates us for the loss in income under s31 of the Local Government Act 2003. The amount of grant received in 2018-19 was £21,976 (£20,232 in 2017-18).

Overall Position

4.19 The overall position on the General Fund was £1.85 million lower net expenditure than originally budgeted.

4.20 The table below summarises the overall position on the General Fund. The figures exclude various accounting adjustment items such as capital charges, International Accounting Standard 19 (IAS 19) adjustments relating to Pension Funds, and other items that do not have any effect on the Council's net budget. The service unit figures include budgeted and actual contributions to service related earmarked reserves where appropriate.

	Revised Estimate	**Actual Expenditure**	**Variance to revised Estimate**
	2018-19	**2018-19**	**2018-19**
	£000	**£000**	**£000**
Directorate Level Expenditure (excluding depreciation & capital charges. Major variances by directorate are explained in Appendix 2)	16,788	15,593	(1,195)
Transfers to reserves (included in Directorate expenditure)	(3,177)	(1,814)	1,363
Directorate Level Expenditure (excluding depreciation, capital charges and reserve transfers)	**13,611**	**13,779**	**168**
Net interest receivable (paragraph 4.5 to 4.7)	127	(1,359)	(1,486)
Minimum Revenue Provision (paragraph 4.8)	1,201	795	(406)
Business rates retention scheme - net position after transfer to business rates equalisation reserve (paragraph 4.12 to 4.11)	(3,980)	(3,980)	0
Revenue Support Grant	0	0	0
New Homes Bonus	(1,471)	(1,552)	(81)
Transition grant and s31 council tax grant		(46)	(46)
Collection Fund Council Tax (surplus) / Deficit	38	38	0
TOTAL net budget (excl parish precepts)	**9,526**	**7,675**	**(1,851)**

5. Treatment of available balance

5.1 The Chief Finance Officer, under delegated authority in consultation with the Leader of the Council and the Lead Councillor for Finance has utilised the balance available for the year of £1.85 million by making a transfer to the Invest to Save Reserve to support the delivery of the Future Guildford Transformation Programme.

6. Major earmarked reserves

6.1 The Code of Practice on Local Authority Accounting that controls the production of the Council's statutory accounts does not require us to include a complete list of the

Council's Reserves and Balances in the Statement of Accounts. A complete list of earmarked reserves is detailed in **Appendix 3**.

6.2 All of these reserves have been set up for a specific purpose and the appendix shows the current policy related to each.

6.3 The reserves are cash backed and the accounts include the interest earned on the balances in the revenue account.

6.4 The following table and paragraphs summarise movements on the major reserves (those with an opening or closing balance of more than £1 million). All the balances quoted are before the transfers suggested in section five above.

	Balance at 31 March 2018 £000	Transfers In 2018-19 £000	Transfers Out 2018-19 £000	Balance at 31 March 2019 £000
General fund:				
Budget Pressures	2,058	-	129	1,929
Business Rates Equalisation	5,560	3,620	1,130	8,050
Capital Schemes	1,641	884	1,632	893
Car Parks Maintenance	4,618	935	848	4,705
Invest to Save	1,948	2,714	247	4,415
IT Renewals	2,101	761	1,658	1,204
New Homes Bonus	3,983	1,387	1,843	3,527
Park and Ride	1,650	-	-	1,650
Special Protection Area (SPA) Sites	5,400	818	24	6,194
Spectrum	1,624	182	168	1,638
Other earmarked reserves	11,157	2,435	3,528	10,064
Total	**41,740**	**13,736**	**11,207**	**44,269**

<u>Budget pressures reserve</u>

6.5 This reserve was set up as part of closing the 2014-15 accounts to help manage unforeseen expenditure pressure during the year. During the year, expenditure of £129,000 was financed, leaving a closing balance of £1.92 million. This reserve will support Future Guildford implementation team costs in 2019-20.

<u>Business Rates Equalisation</u>

6.6 We set up this reserve in 2013-14 to help accommodate the potential volatility of the BRRS and to mitigate the effects on our business rates income of any town centre redevelopment. In closing the accounts, we have used this reserve to accommodate the 2018-19 effects of the BRRS within the original budget (see paragraph 4.17).

<u>Carried forward items (within other earmarked reserves)</u>

6.7 This reserve, is shown as part of 'other reserves' and allows the budget for items that we have not completed in the year to be carried forward so they can be finalised in later years without affecting that years' budget. In 2018-19, the Council used £235,000 of the reserve relating to items carried forward at the end of 2017-18 and made a contribution of £752,000 to the reserve in respect of items unspent in 2018-19. The balance on the reserve as at 31 March 2019 is £1.88 million.

Car Parks Maintenance and Improvement

6.8 We used this reserve to fund repairs, maintenance and improvements in the Council's off street car parks. The Council approves its use annually as part of the Car Parks Business Plan.

Invest to Save Reserve

6.9 This reserve funds investment opportunities (that will allow us to achieve ongoing savings) and short term increases in revenue costs during periods of transition. We made a budgeted contribution of £250,000 and transferred £594,000 into this reserve from the carry forward reserve. We financed revenue expenditure of £246,000 from the reserve, mainly relating to redundancy and pension fund strain costs resulting from service restructuring. The Chief Finance Officer, in consultation with the Leader of the Council and the Lead Councillor for Finance have used their delegated authority to transfer the 2018-19 underspend in full to the Invest to Save Reserve to support the transformation agenda.

New Homes Bonus

6.10 New Homes Bonus (NHB) is a general grant that we receive from the government. It is not ring fenced for any specific purpose and is financed nationally mainly by reductions in revenue support grant. We made a £200,000 budgeted contribution to reserve in 2018-19, and financed expenditure of £551,500 on Ash Road Bridge design, Slyfield internal access road, Bike share feasibility study, planning policy costs and the early feasibility work around the development of replacement for Spectrum in line with the Council's NHB policy. In addition, we transferred a further £104,900 from the reserve, which was budgeted to be spent on the same projects to the carry forward reserve as the feasibility studies were not complete by the year-end. The closing balance is £3.52 million of which £1.69 million is committed to infrastructure and regeneration projects. The Council's policy is to transfer any increase in NHB to reserve to fund specific short to medium term projects or capital projects as identified in the approved capital programme. The Council approved a New Homes Bonus Policy in February 2016, which informs the allocation of this grant during the budget setting process to specific projects each year.

Park and Ride

6.11 This reserve was established in 2008-09 in lieu of a s106 contribution from the Queen Elizabeth Park development, which was used to fund park and ride site expenditure at Merrow and Artington. We will use this reserve to support Park and Ride services.

SPA reserves – Effingham, Riverside, Chantry Woods, Lakeside & Parsonage Meadows

6.12 The Council is obliged to hold SPA endowment funds in reserve to pay for the revenue costs of SPA sites over an 80-year period. The reserves also receive interest on balances during the course of the year.

Spectrum

6.13 This reserve is available to finance structural repairs and improvements.

7 Collection Fund

7.1 Appendix 3 shows the final figures for the Collection Fund. Because of the introduction of the BRRS, we now show the transactions for Council Tax and National Non Domestic Rates (NNDR) separately.

National Non-Domestic Rates (NNDR) or Business Rates

7.2 With the introduction of the BRRS, we have a balance on the fund that we will have to take account of when setting future years' budgets, in the same way that we do for Council Tax.

7.3 The owner/occupier of a business property can appeal against the valuation of a property at any time. The Valuation Office Agency (VOA) deals with these appeals. Appeals made up to 31 March 2015 could be backdated to 1 April 2010. In 2017-18 the Council made a significant provision for appeals resulting from the revaluation of Business Rates in 2017 and a claim for backdated Mandatory relief from two NHS trusts. In 2018-19, the level of provision for business rates appeals has been reduced reflecting the number of appeals and the success rate. The position will remain under review.

7.4 The deficit on the Business Rates element of the Collection Fund has reduced by £8.4 million to £3.74 million at 31 March 2019. This deficit, adjusted for any difference between estimate and projected outturn in 2019-20, will feed into the General Fund, as a cost, in 2020-21. The use of the Business Rates Equalisation reserve enables us to manage the impact of these in-year movements.

7.5 The collection rate for the 2017-18 financial year was 99.40% at 31 March 2019 (99.38% for 2017-18).

Council Tax

7.6 The Local Council Tax Support Scheme (LCTSS), introduced by the government in 2013-14, continues to make it more difficult for us to estimate our Council Tax income. Some people who had previously received housing benefit now receive a reduction in their Council Tax instead and some now pay at least some Council Tax where they did not under the Housing Benefit system. These reliefs can change throughout the year as people move in and out of employment.

7.7 The final figure for Council Tax receivable was lower than the original estimate due to increased discounts and exemptions, resulting in a £465,000 reduction in the collection fund position to leave a closing deficit balance of £1,178,000.

7.8 The collection rate for the 2018-19 financial year was 98.90% at 31 March 2019 (99.11% for 2017-18).

Balance on Collection Fund

7.9 The overall balance carried forward on the Collection Fund Revenue Account, is a deficit of £4.91 million. This is made up of a deficit balance of £3.74 million in relation to Business Rates and a deficit of £1.17 in relation to Council Tax. The deficit is shared between the relevant major preceptors and Central Government (Business Rates only) as part of setting the 2020-21 budget.

8 Consultations

8.1 Officers have consulted the Lead Councillor for Finance about the recommendations in this report.

9 Executive Advisory Board comment

9.1 Because of the tight timescale set down in legislation for the preparation and approval of the accounts it is not possible for the Executive Advisory Board to consider this report prior to the Executive.

10 Equality and Diversity implications

10.1 There are no direct equality and diversity implications because of this report.

11 Financial implications

11.1 We have included the financial implications within the various sections of this report.

12 Legal implications

12.1 The Accounts and Audit (England) Regulations 2015 state that the Council must prepare, in accordance with proper practices in relation to accounts, a statement of accounts for each year, which must include such of the following accounting statements as are relevant to the functions of the relevant body:

- Housing Revenue Account
- Collection Fund
- any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account

12.2 The proper practice referred to above is the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (the Code).

12.3 The Code is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/Local Authority Scotland Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board (FRAB). It constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

12.4 The Chief Finance Officer will sign the Statement of Accounts before 31 May. Our external auditors, Grant Thornton will then audit the accounts before we present them to the Corporate Governance and Standards Committee for consideration and approval on 25 July 2019. Specifically the role of the Committee is to " review the annual statement of accounts with specific emphasis on whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

12.5 The Accounts and Audit (England) Regulations 2015 require the Chief Financial Officer to re-certify the accounts before approval and for the person presiding at the meeting (i.e. the chairman of Corporate Governance and Standards Committee) to sign and date them after approval. We must then publish the Statement of Accounts, together with any certificate, opinion or report issued by the external auditor.

13 Human Resource Implications

13.1 There are no human resources implications.

14 Summary of Options

14.1 As the treatment of the year-end balance has been decided under delegated authority, there are no options to consider.

15 Conclusion

15.1 2018-19 has been a year of continuing change for the Council and it is pleasing that we have maintained our strong record of financial management throughout.

16. Background Papers

- Budget Book 2018-19
- Accounts and Audit (England) Regulations 2015

17. Appendices

Appendix 1: General Fund Summary
Appendix 2: General Fund Variances by Service
Appendix 3: List of earmarked reserve balances
Appendix 4: Collection Fund Revenue Account