

Executive Report

Ward(s) affected: All

Report of Chief Financial Officer

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## Revenue Outturn Report 2020-21

### Executive Summary

#### **General Fund (GF) Revenue Account**

Overall, the outturn for 2020-21 on the General Fund was £6,315,531 more than we originally budgeted, which reflects our continued efforts to deal with the pandemic. The report sets out the major reasons for the variance. In line with the strategy set out in the report to Executive on 24 November 2020 the overspend will be financed from the following reserves:

<b>Reserve</b>	<b>Balance at 31 March 2021*</b>	<b>Used to fund Overspend</b>	<b>Revised Balance at 31 March 2021</b>
Budget Pressures	-1,426,415	1,426,415	0
Legal actions	-812,223	812,223	0
Car Parks Maintenance	-4,427,536	861,158	-3,566,378
Carried Forward Items	-828,028	828,028	0
New Homes Bonus	-3,134,506	2,387,708	-746,798
		<b>6,315,532</b>	

Our net income from interest receipts is £1.416 million higher than estimated and the minimum revenue provision (MRP) for debt repayment is £351,107 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). **Appendix 3** provides additional analysis of how the position on the general fund and each service has moved between the period 10 monitoring report presented to the Corporate Governance and Standards Committee (CGSC) in March 2021 and the final outturn now being reported in this report to the Executive. At period 10 officers were predicting an overspend of £14million, this has now reduced to £6.3million, mainly due to additional grant income received after the year end from Surrey CC and the government in respect of the COVID pandemic. A draft outturn was reported by officers to the CGSC at its meeting on 29 July 2021. The draft outturn for 2020-21 reported to CGSC was an

overspend of £6.4million which has now been amended to £6.3million due to adjustments to the accounting treatment for COVID grants.

The Chief Finance Officer, in consultation with the Leader of the Council and the Lead Councillor for Resources will use their delegated authority to deal with the overspend and transfer the necessary resources from reserves as set out above.

### **Earmarked reserves**

The closing balance on each of the Council reserves are set out in **Appendix 4**, before appropriations to resolve the overspend, together with the ongoing policy for each.

### **Collection Fund**

The Business Rates balance on the Collection Fund is particularly susceptible to movements in the number and value of appeals those 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 5**. There is an overall deficit on the Collection fund of £62.394 million. This is expected because the Council has granted a significant amount of rate relief to business rate payers during the year under the various COVID rate relief schemes from government. The Guildford share of the deficit is £24.958 million which will be recovered from the general fund in 2021-22. The government has compensated the council for the loss of income to the collection fund through a Section 31 grant which has been transferred to the business rates equalisation fund to offset the business rates collection fund deficit which will be charged to the general fund in 2021-22.

The outturn position will be included in the Statement of Accounts which will be signed by the Chief Financial Officer which will be subsequently audited by Grant Thornton.

This report was considered by the Corporate Governance and Standards Committee at its meeting on 29 July 2021. The Committee commended the report to the Executive.

### **Recommendation to Executive**

That the Executive notes the Council's final outturn position for 2020-21 and endorses the decisions taken under delegated authority to transfer the amounts set out in Section 5 of the report to or from the relevant reserves.

### **Reasons for Recommendation:**

- To note the final outturn position and delegated decisions taken by the Chief Financial Officer which will be included within the statutory accounts.
- To facilitate the ongoing financial management of the Council.

**Is the report (or part of it) exempt from publication? No**

## 1. Purpose of Report

- 1.1 This report gives the final position on the General Fund and the Collection Fund revenue accounts for the 2020-21 financial year. It explains the major variances from the General Fund revised estimate.
- 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 This report sets out the final position on two revenue accounts – General Fund and Collection Fund.
- 3.2 Officers will include the impact of the final position in the statutory statement of accounts, which the Chief Financial Officer will sign and publish on our website once they are available. There has been a delay in publishing the draft Statement of Accounts due to complexities in accounting for the COVID grants and some issues arising from the data migration and configuration of our new finance, HR and payroll system, Business World. The CFO has informed the Leader of the Council, Lead Councillor for Resources and notified the auditors that the accounts have been delayed. The CFO has also published a statutory notice advising of the delay to the public inspection period on the Council's website. The public inspection period will commence as soon as practicable after the accounts have been published.

## 4. General Fund Revenue Account

### Summary of Outturn Position

- 4.1 The overall variance on the General Fund is net expenditure £6,315,531 greater than budget. The variance from revised budget arises from four areas; an overspend on expenditure by the Directorates, offset by additional external interest received, a reduction in the Minimum Revenue Provision and an increase in non-specific government grants. A summary is set out in the table below, with further detail on the variances at service level set out in **Appendix 2**:

	Revised	Actual	Variance
	Estimate		
	£000	£000	£000
Directorate Level Expenditure	27,135	48,405	21,269
Capital Charges and Depreciation	-8,814	-28,193	-19,380
Transfers to reserves (excluding business rates equalisation fund)	-797	6,093	6,890
<b>Sub-Total Directorates incl. capital charges and reserve transfers</b>	<b>17,524</b>	<b>26,304</b>	<b>8,780</b>

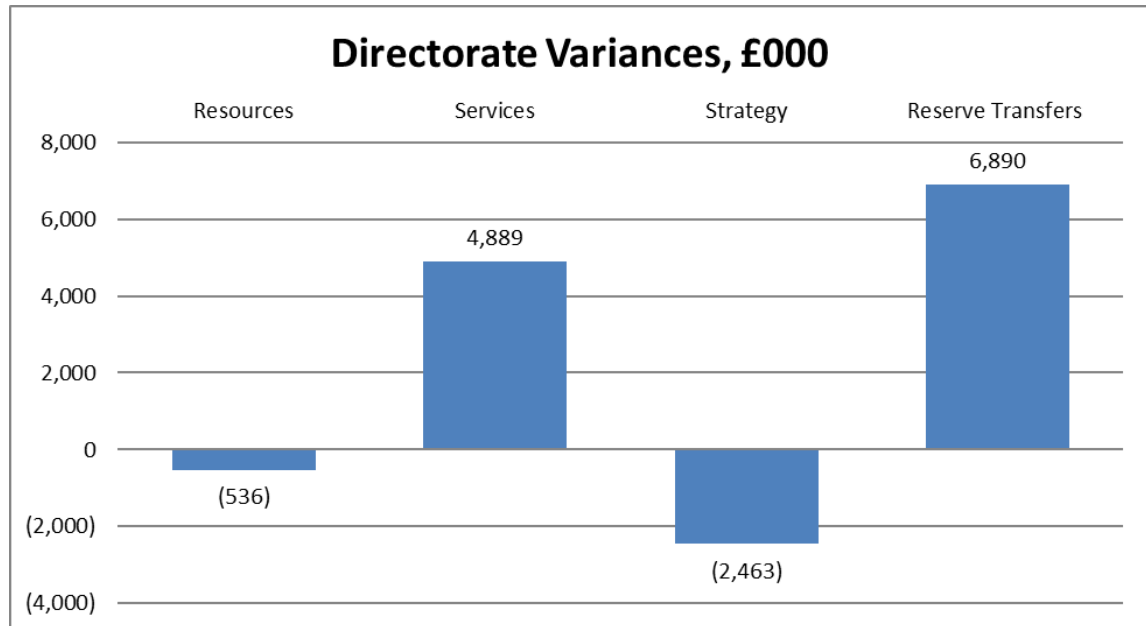
Interest receivable	-641	-2,058	-1,416
Minimum Revenue Provision	1,639	1,288	-351
Government grants and parish precepts	1,377	668	-708
Business rates Retention Scheme	-7,829	-7,818	11
<b>TOTAL Council Tax requirement</b>	<b>12,069</b>	<b>18,385</b>	<b>6,316</b>

- 4.2 The overspend is significantly less than forecasted at period 10 monitoring (reported to the CGSC in March 2021), principally due to additional grant income received after the end of the financial year from Surrey County Council in respect of the Council's costs in dealing with the pandemic and additional income claimed after the year end from the government under the sales, fees and charges compensation scheme for income lost during lockdown 3. In addition, there have been adjustments to the transfers to/ from reserves on final reconciliation of the COVID grants and Future Guildford costs. An analysis of how the position has changed since period 10 monitoring is shown in the table below, with further analysis in **Appendix 3**:

	Period 10	Actual	Variance
	Forecast	Outturn	
	Outturn	Outturn	
	£000	£000	£000
Directorate Level Expenditure	44,282	48,405	4,122
Capital Charges and Depreciation	-8,814	-28,193	-19,380
Transfers to reserves (excluding business rates equalisation fund)	-175	6,093	6,268
<b>Sub-Total Directorates incl. capital charges and reserve transfers</b>	<b>35,293</b>	<b>26,304</b>	<b>-8,989</b>
Interest receivable	-110	-2,058	-1,948
Minimum Revenue Provision	1,288	1,288	0
Government grants and parish precepts	1,171	668	-503
Business rates Retention Scheme	-10,046	-7,818	2,228
<b>TOTAL Council Tax requirement</b>	<b>27,597</b>	<b>18,385</b>	<b>-9,212</b>
Revised Budget Adjustment			1,519
<b>Movement in overspend</b>			<b>-7,693</b>

#### Directorates

- 4.3 The directorates, excluding capital charges and before reserve transfers, are approximately £8.78 million over budget overall. However, there are differences in the position of each directorate, as shown in the chart below.



4.4 The main reason for the large variance in the strategy directorate is mainly due to year end capital charge adjustments for revaluation gains and losses on investment properties and writing off capital expenditure funded from revenue under statute (REFCUS). Capital charges adjustments shown within the directorates are then reversed on the depreciation line within the general fund summary. The cost of dealing with the pandemic and loss of income are the main causes of the variances in the resources and the services directorate.

4.5 **Appendix 2** provides explanations of any service variances above £100,000 within each directorate. In addition, **Appendix 3** provides an explanation as to how the variances have changed between what was reported to CGSC in March 2021 as part of period 10 monitoring and the final actual outturn reported in this report. As expected, a significant amount of the variances within services are related to dealing with the pandemic and an associated loss of income. The major variances across services are listed in the table below.

	Budget (£)	Outturn (£)	Variance (£)
Off Street Parking	(4,678,475)	(2,959,134)	1,719,341
On Street Parking	(336,250)	203,998	540,248
Development Control	830,460	1,570,645	740,185
Countryside and Parks	2,153,720	3,169,589	1,015,869
Leisure Management	1,344,180	1,557,249	213,069
Refuse and Recycling	3,976,430	4,700,757	724,327
Town Centre Management	(216,840)	814	224,964
Investment Property	(4,327,250)	665,193	4,991,217
Industrial Estates	(2,587,580)	(6,197,701)	(3,645,473)
Net costs of COVID (see paragraph 4.17 below)	0	1,244,457	1,244,457
Other minor variances and reserve transfers			1,011,581
			<b>8,779,785</b>

#### Interest receivable

- 4.6 The weighted average interest rate achieved on our investment portfolio was 1.42% against a 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 £1,416 million more than revised estimate. The higher balances come from having more cash than estimated at the start of the year and slippage in the 2019-20 capital programme.
- 4.7 The General Fund pays interest to the Housing Revenue Account (HRA) on its balances. The 2020-21 interest to the HRA was £520,111 lower than budgeted because the Council gives the HRA interest on balances at the risk-free debt management office rate which was 0.01% during the year.
- 4.8 Overall, net interest received by the General Fund was £1.416 million more than estimated.

#### Minimum Revenue Provision (MRP)

- 4.9 Minimum Revenue Provision is a charge to the revenue account for unfinanced capital expenditure. The 2020-21 budget was based on the estimated capital-financing requirement (CFR) at the end of the previous year (31 March 2020) and was £1,639,171 based on an estimated CFR of £149.5 million. The actual General Fund CFR at 31 March 2020 was £124.36 million, which generated a minimum revenue provision of £1,288,064 (£351,107 lower than the revised budget).

#### Transfers to reserves

- 4.10 Many 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 variances between the budgeted and actual transfers to reserves are detailed in appendix 3 and use of reserves is set out in section 6.
- 4.11 **Appendix 4** gives a full list of the balances on earmarked reserves and the purpose for which they were established.

#### COVID-19

- 4.12 COVID19 has continued to impact the Council in 2020-2021. The Council continues to have a vitally important role in responding locally to COVID19, having a duty to ensure that crucial council services continue to operate under these unprecedented circumstances.
- 4.13 The council has received Covid grants from Central Government for wide range of purposes. Some of these grants will go directly to individuals or businesses with little control by the council over what amount can be awarded. Where this is the case, the council is seen to be acting as an agent for Central Government and these must be excluded from the Authorities accounts. Any unspent grant is shown within the receipts in advance on the council's balance sheet.
- 4.14 Where the council has more control over the award of a grant (award based on certain criteria such as business rates banding), the council is dealing as a principal and these grants, and the expenditure associated with them must run through the council's financial accounts. Where the authority is acting as principle but there is a

requirement to repay any unspent grant or, where the authority needs to carry forward grant income to offset future expenditure, the Council is required to carry forward the unspent grant monies in an earmarked reserve. Each grant must be considered carefully to establish whether the relationship is that of Agent or Principal. The accounting treatment has led to the recognition of more grant income in the Council's accounts than anticipated and has led to an increased level of earmarked reserves the Council has at the end of the financial year. It is important to note however, that this additional income and higher level of reserves is not generally available to support expenditure on council services. Reserves related to the covid grants must be spent on the purpose for which the grant was received.

- 4.15 The government recognised that Covid-19 has impacted councils' ability to generate income across many services because of lockdowns, government restrictions and social distancing measures. The government devised a scheme that partly compensates for irrecoverable and unavoidable losses in relation to income (sales, fees and charges) in the financial year 2020-21.
- 4.16 The indirect costs associated with the pandemic are reflected in the services forecasting and final year position. Central government has compensated the council for a proportion of losses suffered in income (under tranche 1 and 2), resulting in support of £4.511 million. Compensation for tranche 3 will result in a further £3 million coming to the council. The total of this compensation (£7.5 million) has been reflected across those services affected.
- 4.17 Additional costs incurred in the 2020-21 financial year total £3.8 million with more expenditure in 2021-22 anticipated. The expenditure incurred is broken down in the table below.

<b>Description</b>	<b>£000</b>
Leisure (Spectrum), Heritage and Tourism	2,557
Personal Protective Equipment	236
Shielding	735
Lockdown compliance and enforcement	57
Health	(52)
Emergency accommodation	186
ICT	56
<b>Expenditure</b>	<b>3,775</b>
Covid grant income from government and SCC to be used to offset direct council costs	2,531
<b>Net cost of COVID to GBC</b>	<b>1,244</b>

- Overall Position
- 4.18 The overall position on the General Fund was £6,315,531 more than originally budgeted.

## 5. Treatment of overspend

- 5.1 Council, at its meeting of 5 May 2020 approved an emergency budget to deal with the impact of Covid-19 should government support fall short of the final costs of the pandemic. At its meeting in November 2020, the Executive agreed the use of specific reserves to finance the overspend. In line with that report the Chief Financial Officer, under delegated authority in consultation with the Leader of the Council and the Lead Councillor for Resources has utilised earmarked reserves to balance the general fund as set out in the table below:

Reserve	Balance at 31 March 2021*	Used to fund Overspend	Revised Balance at 31st March 2021
Budget Pressures	-1,426,415	1,426,415	0
Legal actions	-812,223	812,223	0
Car Parks Maintenance	-4,427,536	861,158	-3,566,378
Carried Forward Items	-828,028	828,028	0
New Homes Bonus	-3,134,506	2,387,708	-746,798
		<b>6,315,532</b>	

\*balance set out in paragraph 6.4

## 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 transfer suggested in section five above.



	Balance at 31 March 2020	Receipts in Year	Transfers out in Year	Balance at 31 March 2021
	£000	£000	£000	£000
<b>General Fund</b>				
Interest Rate Movements	-1,196,970	0	0	-1,196,970
New Homes Bonus	-3,490,087	-851,019	1,206,600	-3,134,506
Carried Forward Items	-1,654,219	0	826,192	-828,028
Invest to Save	-4,265,882	-250,000	2,096,187	-2,419,696
Spectrum	-1,823,017	-188,843	0	-2,011,860
Car Parks Maintenance	-4,235,964	-649,950	458,378	-4,427,536
Park & Ride	-1,650,000	0	0	-1,650,000
Business Rates equalisation	-5,715,527	-26,481,086	8,144,816	-24,051,797
Special Protection Areas (SPA) sites	-9,768,207	-472,069	46,733	-10,212,548
Budget Pressures	-1,754,415	0	328,000	-1,426,415
BR Covid discount	0	-2,384,747	0	-2,384,747
Other reserves	-8,342,944	-2,036,424	2,073,822	-8,305,546
<b>TOTAL</b>	<b>-43,897,232</b>	<b>-33,314,139</b>	<b>15,180,727</b>	<b>-62,049,648</b>

Following the use of reserves to finance the overspend of £6,315,532 the balance on reserves will be £55,734,116 however of this balance £10.2million relates to SPA reserves which cannot be used by the Council to support general spending and £42million relates to reserves to offset future expenditure that would need to be replaced and so is not available for general spending. Therefore, the balance of reserves that can be used to support the revenue and capital budgets going forward is only £3.5million. This is significantly lower than in previous years.

#### Budget pressures reserve

- 6.5 This reserve was set up as part of closing the 2014-15 accounts to help manage unforeseen expenditure pressure during the year. £328,000 was financed from this reserve in the year to fund action at Stoney Castle and Future Guildford. The remaining balance will be utilised to fund the Covid overspend.

#### Business Rates Equalisation reserve

- 6.6 This reserve was set up in 2013-14 to help accommodate the potential volatility of the Business Rate Retention Scheme and to mitigate the effects on our business rates income of any town centre redevelopment. The significant transfer to the reserve in 2020-21 relates to the Section 31 grant received for the COVID related business rates relief.

#### Carried forward items (within other earmarked reserves)

- 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 2020-21, the Council used £826,000 of the reserve relating to items carried forward at the end of 2019-20. The balance on the reserve as at 31 March 2021 is £828,000 which will be fully utilised to fund the Covid overspend.

#### Car Parks Maintenance and Improvement

- 6.8 This reserve funds 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. £861,158 of the balance will be used to fund the Covid overspend.

- 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. We financed revenue expenditure of £2.096 million from the reserve, mainly relating to redundancy and pension fund strain costs resulting from the Future Guildford transformation programme.
- 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 financed expenditure of £1.2 million, £774,000 on Guildford Gyrotory – Walnut Bridge and £433,000 on the town centre masterplan in line with the Council's NHB policy. The closing balance is £3.135 million of which £400,000 is committed to the town centre masterplan, £120,000 to the Ripley Village Hall homes building and £177,000 to other 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 the New Homes Bonus Policy in February 2016, which informs the allocation of this grant during the budget setting process to specific projects each year. The reserve will be used to finance the final overspend on the general fund.
- 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. This reserve is used 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 year.
- Spectrum
- 6.13 This reserve is available to finance structural repairs and improvements.
- 7. Collection Fund**
- 7.1 Appendix 5 shows the final figures for the Collection Fund. Because of the introduction of the Business Rates Retention Scheme (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 year's budgets, in the same way that we do for Council Tax.
- 7.3 The collection rate for the 2020-21 financial year was 95.48% as at 31 March 2021 (97.84% for 2019-20).

- Council Tax
- 7.4 The Local Council Tax Support Scheme (LCTSS), introduced by the government in 2013-14, continues to make it difficult 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.
- 7.5 The final figure for Council Tax receivable was lower than the original estimate resulting in a reduction in the collection fund position to leave a closing deficit balance of £2.451 million.
- 7.6 The collection rate for the 2020-21 financial year was 97.53% at 31 March 2021 (98.60% for 2019-20).

- Balance on Collection Fund
- 7.7 The overall balance carried forward on the Collection Fund Revenue Account, is a deficit of £62.39 million. In relation to Business Rates the deficit (£59.94 million) is shared between the relevant major preceptors and Central Government (Business Rates only) as part of setting the 2021-22 budget.

## **8. Consultations**

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

### Corporate Governance & Standards Committee – 29 July 2021

- 8.2 This report was considered by the Corporate Governance and Standards Committee at its meeting on 29 July 2021. The Committee commended the report to the Executive and noted that the Council had initially estimated the likely deficit caused by the pandemic to be between £10 million and 15 million, which assumed minimal assistance from central government. However, there were various government schemes through the year that compensated the Council for some losses in revenue and also some grant funding for some of the increased costs. The Council was now exploring a number of initiatives within the savings strategy to address the ongoing deficit.

## **9. Equality and Diversity implications**

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

## **10. Financial implications**

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

## **11. Legal implications**

- 11.1 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
- 11.2 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).
- 11.3 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.
- 11.4 The Chief Finance Officer will sign the Statement of Accounts on or before 31 August. Our external auditors, Grant Thornton will then audit the accounts before they are presented to the Corporate Governance and Standards Committee for consideration and approval when the audit has been completed. 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”.
- 11.5 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.

## **12. Human Resource Implications**

- 12.1 There are no human resources implications.

## **13. Summary of Options**

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

## **14. Conclusion**

- 14.1 2020-21 has continued to be a year of continuing challenge and change for the Council and it is pleasing that we have maintained our strong record of financial management throughout.

## **15. Background Papers**

Accounts and Audit (England) Regulations 2015  
Accounts and Audit (Amendment) Regulations 2021

## **16. Appendices**

Appendix 1: General Fund Summary

Appendix 2: General Fund Variances by Service

Appendix 3: General fund and service variances from P10 monitoring and draft outturn

Appendix 4: List of earmarked reserve balances

Appendix 5: Collection Fund Revenue Account