

Committee: Cabinet

Date of meeting: 4 July 2018

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|------------------------------------|---|
| Subject: | 2017/18 Revenue & Capital Outturn and 2018/19 Budget Update |
| Lead Officer: | Head of Finance |
| Portfolio Holder: | Resources – Councillor Mrs. R. Mitchell |
| Link to Council Priorities: | All |
| Exempt information: | None |
| Delegated status: | For Resolution (A&B). For Recommendation to Council (C) |
| Key decision: | N/A |

Executive Summary:

To provide the Cabinet with an update on the Revenue and Capital Outturn for 2017/18 and a brief update on the 2018/19 in year budget. The audited Statement of Accounts for 2017/18, which contains the detailed figures in a format compliant with the requirements of the Code of Practice on Local Authority Accounting will be presented for approval to the Audit and Standards Committee in July 2018 following the audit during June and July.

Recommended that:

- (a) Cabinet notes the outturn for 2017/18 and;**
- (b) notes the early budget update for 2018/19;**
- (c) Cabinet recommends to Council to approve an increase in the approved budget for the works on Drewitts Court (£115,000) and Brooklands Culvert (£55,000) to be funded from the Car Parking Maintenance Reserve and Suitable Accessible Natural Green Space (SANGS) contributions respectively.**

Report:

- 1. Introduction
 - 1.1 In accordance with the regulations, the Council's Chief Finance Officer (Section 151 Officer) needs to issue the draft accounts by 31 May which are then subject to audit. The audited Statement of Accounts will then be approved by the Audit and Standards Committee in July.
 - 1.2 The format required for the Statement of Accounts is not directly comparable to the Council's management accounts and the Statement is effectively an academic exercise, caution should be exercised in making comparisons to the financial position of the authority, and in particular the revenue position.
 - 1.3 The Narrative to the 2017/18 Statement of Accounts gives a more accessible summary of the financial position and is attached at Appendix A.

1.4 The 2017/18 Statement of Accounts was issued by the Strategic Director & Deputy Chief Executive on 23 May 2018.

2. **Revenue Outturn and Overview of 2017/18**

2.1 In February 2017 the Council approved the 2017/18 net budget for council tax setting purposes at £16.4 million. In February 2018 the Council considered a revised forecast which contained a variation and changes to the anticipated spend for the year.

2.2 As a result of these variations and other changes in the anticipated spend, a revised forecast figure was reported in February 2018 (£0.9 million) which after taking account of the movements in provisions predicted an expenditure in line with the approved budget. The underspend at the time of the revised estimate was earmarked to fund the purchase of investment property. The actual outturn position was broadly in line with the revised forecast.

2.3 The underspend identified in February is detailed in the February Cabinet report. This is as a result of better than budgeted income in rents for property and car parking, combined with some one-off income contributing to the underspend. In addition, prudent budget management during the year, ensuring that the funds available are used to deliver services at the lowest cost to the Council Taxpayer

2.4 It should be noted that the position reported at this time is provisional pending the full audit of the Statement of Accounts for the year.

2.5 The outturn for 2017/18 confirms earlier forecasts that the General Fund balance as at 31 March 2018 remains sound. However, with continuing volatility in the economy and BREXIT, where Elmbridge has seen huge fluctuations in income and interest together with known pressures and doubts over future public-sector Government support, the recommended level of £4 million General Fund balance is essential.

2.6 In setting both the 2017/18 and 2018/19 budget, Heads of Service have costed their activities to achieve outcomes in their service plans. Corporate Management Board considers that carry forward of unspent budget provisions into 2018/19 would be appropriate where there was good reason for the delayed spending and where it is clear that the budget is needed and will be spent in 2018/19. The following criteria was used to determine the carry forwards:

- Deferred expenditure for a valid reason beyond their direct control.
- To fund one-off project expenditure.

3. **Overview of 2017/18**

Elmbridge has kept within its overall budget in recent years but there have been under and overspends in individual service areas. The Council's gross revenue budget for 2017/18 was £74 million and it provides an extremely wide range of very different services, many of them demand-led. As a result,

it faces a great variety of risks of adverse budget variations. These risks are mitigated by close budget monitoring and reporting in year to officers, Corporate Management Board and various committees.

3.1 In summary:

- For the 2017/18 financial year, continuing the trend in previous years, the Council delivered its services within the approved budget. This was achieved despite significant demand on services and during a period of uncertainty in the economic environment. Cautious spending combined with increased income levels has contributed to this favourable position.
- The Council's General Fund balance stands at £4.0 million as at 31 March 2018.
- The in-year Council Tax collection performance was 98.9% (98.9% for 2016/17).
- The in-year Business Rates Collection performance was 99.2% (99.0% for 2016/17).

3.2 The main contributing factors to the underspend are as follows (£0.9 million was identified as part of the revised forecast in February 2018):

An analysis of the £1.0 million underspend (this represents less than 1% of Council's overall budget) is as follows:

| | £'000 |
|--|--------------|
| Employee related | (0.4) |
| Operating Expenses | (0.1) |
| Income (incl. new Property Purchases) | (0.6) |
| Other | 0.1 |
| Transfer to Property Acquisition Reserve | <u>(1.0)</u> |

The Council's financial health remains strong and this capacity will be needed to provide a firm financial foundation for the Council to deliver services in what is a very challenging financial climate in the public sector for the medium term, with continued risk of the public-sector finances and our continued aspiration and drive to become financially independent by 2019/20.

4. **Effect on 2018/19 Budget**

4.1 A review has been carried out on the probable effect on the 2017/18 Budget of the over and underspends included in the outturn position. Items have already been taken into account in the 2018/19 budget or were one-off items that relate only to 2017/18. At this stage, the outturn figures appear to have little overall impact on the 2018/19 budget, with some exceptions where more

work will be required to ensure that the monitoring reflects the latest position. The detailed Outturn figures will be taken into consideration as part of the review of the 2018/19 Budget work to be undertaken during July/August.

5. **Capital Outturn**

5.1 The capital programme for 2017/18 outturn position is £48 million an underspend of £11 million compared to the revised programme of £59 million.

5.2 In the majority of cases the underspends are due to slippage in the projects timeframe and the funding will be carried forward into the 2018/19 capital programme following a review by the Council Management Board. Should there be no further requirement for the funding, the funds will be released, back to the original funding source.

5.3 There are a number of individually large projects being re-phased into 2018/19 within the Resources Portfolio, including:

- the new nursery facility at Stompond Lane (which will be purchased once the building work has been completed);
- the car park refurbishment programme including Drewitts Court;

| Portfolio | Variance to Revised Estimate £m |
|-------------------------|--|
| Community Development | (0.5) |
| Resources | (7.1) |
| Planning* | 0.6 |
| Environment and Economy | (0.5) |
| Highways and Transport | (0.1) |
| Housing | (1.8) |
| Leisure and Culture | (1.1) |
| Social | (0.1) |
| Total | (10.6) |

*The planning overspend relates to CIL expenditure.

Capital Spend Update 2018/19

5.4 Due to circumstances beyond the contractors and officers control two capital projects will exceed the approved expenditure. We are wholly committed to each project contractually and the reasons and the additional costs are highlighted below:-

Brooklands Culvert

Approval was given at February Cabinet 2018 to spend £286,000 in the Capital Programme bids for 2018/19. The cost of the project has increased from £286,000 to a completed cost of £341,355. An increase of £55,355. The reason for this increase is due extensive asbestos discovered when undertaking the excavation which meant that the project had to be stopped and costs incurred for the safe disposal of the hazardous material and notifying the Health and Safety Executive. In addition to this and despite undertaking

an ecology survey prior to commencing the works, when excavation of the culvert commenced bird nesting was evident for which re-phasing of the works was required and this has resulted in additional costs to the project.

The work at Brooklands was to be funded from SANGS contributions received. At 1 April 2018 £450,000 remained unallocated to projects from SANGS meaning that these funds are available to fund the additional cost of the project.

Drewitt's Court

The original capital bid of £1,500,000 which was approved by Cabinet in February 2017 as part of the overall car park programme which was funded from an existing provision (sums set aside in previous years) and strategic CIL funding. The actual contract sum for the works was £1,544, 878 which was within the 5% permitted tolerance. The project has been extremely challenging since commencement due to the structural strengthening required to the parapet walls at first floor level. In addition, when the works commenced extensive asbestos was found during the excavation works on the ground floor which had unavoidable cost implications. The additional cost of the removal of the asbestos and strengthening works is £105,333 making the actual contract sum for the works £1,605,333. There are still 6 weeks of work left before the project is completed and whilst it is not anticipated that there will be any further cost implications we recommend that the figure now allocated to this project is £1,615,000.

The work at Drewitts Court was to be funded from the provision set aside for the work and CIL. The additional cost of £115,000 can be funded from the planned Car Park Maintenance Reserve contribution for 2018/19 of £150,000 for funding.

6. Collection Fund

- 6.1 The net collectable debt for Council Tax was at £114 million in 2017/18 (£110 million in 2016/17). The percentage of Council Tax collected for 2017/18 (payments received as a percentage of the collectable debit) was 98.9%.
- 6.2 The net collectable debt for Business Rates for 2017/18 was £62 million an increase of £3 million compared to 2016/17. The percentage of Business Rates collected for 2017/18 (payments received as a percentage of the collectable debit) was 99.2%.

7. Significant Issues on Closing the 2017/18 Accounts

7.1 Community Infrastructure Levy (CIL)

At 31 March 2017 £10.7 million was included in the earmarked reserve for CIL. During the year £8.8 million was allocated and has been reclassified on the balance sheet in accordance with how the CIL Boards allocated the expenditure (Capital Grant Unapplied or a Creditor for expenditure of a revenue nature). An additional £4.5 million has been received during 2017/18 leaving £6.4 million to be allocated with £5.7 million of schemes to be agreed

from Strategic Infrastructure and Maintenance Reserve. Part of the reason for the increased level of CIL is one of timing in that the decision of Cabinet in March 2018 was called in, and although the call had no effect on cabinet's decision, the meeting considering the call in was in April 2018, meaning that at the Balance Sheet date (31 March 2018) no decision had been made, the amount to be allocated was £0.9 million.

Provisions

- 7.2 The Council has a full repairing responsibility on an Asset it leases. In 2016/17 a further provision of £250,000 was made to meet its obligations under the leasing agreement bringing the total provision to £1.25 million. To date the Council has spent £297,000 repairing the asset, with the balance to be utilised during 2018/19. Two other properties no longer require a provision. The most significant of these was for a site which has been sold (Stompond Lane).
- 7.3 The 2017 revaluations increased the rateable values of the majority of Business properties within the Borough. However, a few properties (large supermarkets), had outstanding appeals against the 2010 valuations and these received decreases in their rateable values, on the 2017 valuation list. In order to provide for successful appeals a specific provision has been made for these properties of £3.0 million which would represent a 10% reduction in the 2010 valuations.
- 7.4 The balance represents the Council's proportion (40%) of the potential reduction in the amount of business rates as a result of appeals and future appeals. If the Valuation Office re-assess the rateable value as a result of an appeal, the Council will refund the property owner for its overpayment, backdated to the date of the original assessment. The balance of the cost is normally borne by Central Government (50%) and Surrey County Council (10%). However, when the Council is in a Pool (or a Pilot), and there is a pooling gain, this would be borne by the Pool (or the Pilot).
- 7.5 During 2016/17 the Valuation Office carried out a re-valuation exercise. These valuations came into effect on 1 April 2017 together with a new process for reviewing rateable values. An additional provision of 6% has been made to reflect the uncertainty associated with the new valuations and the "appeal" process, which started for these new valuations.

8. Balance Sheet

8.1 A summary balance sheet for the last two years is shown below:

| 31 March 2017 | Balance Sheet Summary | 31 March 2018 |
|----------------------|-------------------------------------|----------------------|
| £'000 | | £'000 |
| 154,904 | Long Term Assets | 188,814 |
| 56,644 | Current Assets | 84,449 |
| (21,612) | Current Liabilities | (21,363) |
| (79,451) | Long Term Liabilities | (104,538) |
| 110,485 | Net Assets | 147,362 |
| | <u>Useable Reserves</u> | |
| 4,000 | General Fund | 4,000 |
| 17,427 | Earmarked Reserves | 20,305 |
| 10,735 | Community Infrastructure Levy (CIL) | 12,137 |
| 12,177 | Capital Receipts Reserve | 20,498 |
| 11,709 | Capital Grants Unapplied | 14,691 |
| 56,048 | Total Useable Reserves | 71,631 |
| 54,437 | Unuseable Reserves | 75,731 |
| 110,485 | Total Reserves (Net Worth) | 147,362 |

Notes:

The unusable reserves are the Capital Adjustment Account, Revaluation Reserve, Collection Fund Adjustment Account, Accumulated Absence Account, Pension Reserve and Deferred Capital Receipts Reserve.

The Council's net worth has increased by £36.9 million, mainly as a consequence of an increase in the value of its long-term assets of £33.9 million and an increase in current assets of £27.8 million. These were reduced by an increase in long term borrowing of £24.4 million.

8.2 The Long-Term Assets of the authority have increased due to:

- An increase of £14.7 million in the values of the property, plant and equipment, of which £13.4 million relates to additions or enhancements to Council Buildings – including the Sports Hub £6.6 million, Albemarle House £1.1 million, and £1.6 million on other properties (including Car Parks, the Civic Centre and Hersham Day Centre) and £4 million relates to additional or replacement vehicles and equipment, with £3.3 million on the Joint Waste Contract Vehicles and the balance on other vehicles and equipment (including Community Transport, the Sports Hub and IT Hardware). The balance of the increase relates to asset revaluations net of in year depreciation and the disposal of Stompond Lane at its carrying value £0.5 million.
- A £31.3 million increase because of investment property purchases including £15 million relating to Sandown Industrial Estate and £17.5

million relating to 50-68 High Street Weybridge. There was a reduction as a consequence of fair value adjustments of £1.2 million relating to investment properties.

8.3 The Useable Reserves have increased due to:

- £8 million of capital receipts received during the year, not being applied to fund capital expenditure in the year. This is the main reason for the increase in the Capital Receipts Reserve and relates to the sale of Stompond Lane, after funding the Sports Hub.
- The main reasons for the increase in Earmarked Reserves is a £2 million increase in the Business Rates Retention Reserve and a £1 million increase in CIL reserves.
- The increase in the Capital Grants Unapplied reserve is mainly due to a £2 million increase in S106 Affordable Housing Grants received.

9. **2018/19 Budget Monitoring**

9.1 Based on the first two months of this financial year, the table below shows an early indication of income against budget and should be viewed with some caution at this early stage. At this early stage of the year there are no significant variances to the budget that needs to be drawn to attention of the Cabinet. Further updates to Cabinet will follow later in the year.

| | Current Prediction Compared to Budget |
|-----------------------------------|--|
| Land Charges * | ↑ |
| Interest on Balances | ↔ |
| Cemetery Income | ↑ |
| Planning Fee Income | ↓ |
| Centre Income | ↑ |
| Net Recycling Income | ↓ |
| Off Street Parking Income | ↘ |
| Investment Property Rental Income | ↔ |

- ↔ - Income neutral compared to budget
- ↑ - Additional income above budget
- ↓ - Income below budget

* - Land Charges have to break even by statute with any surplus being used to offset future years' fees and does not therefore result in an income stream which contributes to the Council's budget.

9.2 Regulate monitoring and reporting is paramount in managing the budget given the level of savings and additional income included in the 2018/19 budget.

10. **MTFS and 2019/20 Budget**

10.1 To reduce Local Government's dependence on central Government for funding by the end of this Parliament, the Government announced plans for local Government to keep 100% of the income raised locally through Business Rates. To ensure Councils with less Business Rates do not lose out re-distributions between authorities will continue.

10.2 Surrey Districts along with Surrey County Council applied to participate in Business Rate Retention Pilots from April 2018. In December 2017 it was announced that Surrey's bid was successful. As a result of entering the Pilot the Council will retain an estimated extra £0.7 million of business rates which would otherwise have been paid to Central Government. Because of the complexities of the Business Rates Retention Scheme, this will become available to use in 2019/20.

10.3 A report outlining the Budget Strategy for 2019/20 will be reported to the September Cabinet.

Financial implications:

The Council's accounts are produced according to the Code of Practice on Local Authority Accounting, which facilitates benchmarking with other authorities.

In addition to the approved Capital Programme two projects, Brooklands Culvert and Drewitts Court will exceed their current allocations of expenditure. The additional costs of £55,000 and £115,000 respectively can be met from existing resources.

Environmental/Sustainability Implications:

None for the purpose of this report.

Legal implications:

Under the Accounts and Audit Regulations 2015 the Council is required to prepare, in accordance with proper practices, a Statement of Accounts and have them formally approved by a resolution of a Committee (Audit and Standards Committee at Elmbridge Borough Council).

Equality Implications:

There is no need for an Equality Impact Assessment as part of this report.

Risk Implications:

Preparation of the Council's Annual Statement of Accounts is managed carefully to minimise risks and ensure that statutory obligations are met. Regular monitoring and robust financial management of budgets has enabled the outturn to be within the overall budget.

Community Safety Implications:

There are no direct community safety implications as part of this report.

Principal Consultees:

Council Management Board.

The Council is committed to publishing its summary accounts in a way that is accessible to the public. The published accounts will be made available to the public on the Council website on a timely basis. The Council also publishes user-friendly versions of the Council finances in a summary form in September to all households in the Borough via the Elmbridge Review.

Background papers:

None.

Enclosures/Appendices:

Appendix A: Narrative to the 2017/18 Statement of Accounts.

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