



**Elmbridge**  
Borough Council  
*... bridging the communities ...*

# Narrative to the 2017/18 Statement of Accounts



## **Narrative for 2017/18**

### **Summary of Financial Performance in the year**

In the financial year to 31 March 2018, the Council delivered its services within the approved budget of £16,365,890. This is in accordance with the Council's medium term financial strategy, and robust financial management of the Council's services has enabled further savings to be made during the year.

The Council's General Fund balance remains at £4 million as at 31 March 2018. The Council's financial health has continued to strengthen 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 risk on BREXIT and uncertainty around the current national political environment and its priorities and, in particular, the Business Rates Retention Scheme and the Fair Funding Review.

The Council has recognised in strategic terms that the local authority needs to reduce its dependency on Government revenue funding when public funds are so highly constrained, through effective use of assets, increased income from property investments and retention of Business Rates, as the clear message from Central Government is that Councils should fund local services with locally raised revenues.

### **Financial Planning**

The role of the Council's financial planning process is to support the achievement of the Council's Strategic Priorities and Corporate Plan. The main driver for the budget and savings options developed is the administration's desire to provide high quality services that are in line with Council priorities and residents needs at the least possible cost to Council Tax payers.

The objectives of the Council's financial strategy are to:

- Prioritise resources to align spending plans with the Council's vision and strategic priorities
- Provide a robust framework to assist the decision-making process
- Maintain a balanced budget position, and to set a medium and long term financial plan maintaining and strengthening that position
- Continue to deliver value for money to our residents
- Exercise probity, prudence and strong financial control
- Manage risk, including strengthening reserves & levels of investment income
- Continually review budgets to ensure that resources are targeted on key priorities

## Non-Financial Performance

A summary of the results of the 2016 Resident Panel survey are set out in the table below:

	2014 %	2015 %	2016 %
<b>Residents agree that the Council provides Value for Money</b>	<b>73</b>	<b>75</b>	<b>73</b>
<b>Satisfaction with Individual Services</b>			
Environmental Services (includes noise nuisance, food hygiene pest control, licensing and removal of graffiti)	85	73	76
Waste Collection, recycling, refuse and food collection	n/a *	89	86
Street Cleaning	n/a *	75	66
Planning Services	44	41	43
Community Support Services	29	32	33
Leisure and Cultural Services	68	63	64
Housing Services	13	18	17
Local Taxation	78	77	77
<b>Overall Satisfaction with the way Elmbridge runs its services</b>	<b>88</b>	<b>88</b>	<b>86</b>
<b>Top three Priorities identified for the Council for the next five years were:</b>			
Protecting the character of the area from building development	57	62	63
Working with the Police to keep crime and anti-social behaviour low	50	46	45
Minimise council tax	33	35	33

\* - These questions were not part of the survey in 2014

In September 2016, the bi-annual Residents' Panel survey was sent to 1,548 panel members. Responses were received from 535 panel members, giving a response rate of 35% (2015 – 38%, 2014 – 43%). The purpose of the survey is to obtain residents view of the Council's performance and priorities of the residents and taxpayers of the Council, the next Survey will be undertaken in 2018.

The top priorities were ascertained by asking what issues were most important for residents, with respondents allowed to tick up to three questions from a selection of thirteen.

Further details of the Residents Panel Survey can be found on the Council's website.

## Budget and Actual Expenditure 2017/18

Budget proposals for 2017/18 were reported to Members through various Cabinet, Overview and Scrutiny Committees, Performance and Finance Panel and Council between September 2016 and February 2017, with the final budget being approved in February 2017.

The Council's approach to setting the budget involved detailed consideration of financial risk, so that this can be factored into budget decisions.

The 2017/18 Budget incorporated savings and reductions of £1.1 million. The main components of the budget for 2017/18, and how they compare with actual income and expenditure for the year are:

Portfolio	2016/17	2017/18			
	Actual £'000	Original Budget £'000	Actual £'000	Variance to Original Budget £'000	%
Community Development	401	385	314	(71)	18
Corporate Development	2,654	2,620	2,459	(161)	(6)
Environment and Economy	5,449	5,348	5,437	89	2
Highways and Transport	(1,490)	(1,602)	(2,019)	(417)	(26)
Housing	2,056	2,544	1,956	(588)	(23)
Leisure and Culture	4,519	4,701	4,184	(517)	(11)
Licensing Committee	126	203	215	12	6
Resources	425	1,060	811	(249)	(23)
Social	2,196	2,904	2,480	(424)	(15)
Planning Committee	1,785	1,869	2,453	584	31
	<b>18,121</b>	<b>20,032</b>	<b>18,290</b>	<b>(1,742)</b>	<b>(9)</b>
Asset Rentals	(2,333)	(2,830)	(2,830)	-	
Interest on Balances	(692)	(607)	(667)	(60)	
Contribution From Interest Equalisation Reserve	(558)	(338)	(338)	-	
Purchase of Investment Property	1,584	-	-	-	
Transfer from Council Tax Freeze Grant Reserve	(307)	(307)	(307)	-	
New Homes Bonus	0	(1,889)	(1,894)	(5)	
Contribution to New Homes Bonus / Property Acquisition Reserve	0	1,522	1,527	5	
To / (from) Earmarked Reserves	523	75	1,386	1,311	
Transitional Settlement Grant	(256)	(190)	(190)	-	
Capital Financing	597	898	1,389	491	
	<b>16,679</b>	<b>16,366</b>	<b>16,366</b>	<b>-</b>	

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

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

Budgets are monitored on the following basis:

- i. Monthly - Departmental monitoring of all income and expenditure and a summary of pre-determined major budgets (particularly income streams) is reported to Council Management Board (CMB).
- ii. First and second quarters – The Cabinet receive a budget monitoring report by portfolio along with key financial indicators.
- iii. Third Quarter – A revised forecast for the year is produced and reported to CMB and Cabinet.
- iv. Year end – The final accounts are produced.

Where major adverse variances are found, corrective action is taken to rectify the position during the year.

## Accounts for 2017/18

### The Statement of Accounts

The purpose of the Statement of Accounts is to give residents of Elmbridge, electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (The Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain English.

The Council's Statement of Accounts for the year 2017/18 includes:

#### **The Statement of Responsibilities**

This outlines the responsibilities of the Council's and the Chief Finance Officer's responsibilities for the Statement of Accounts. It also carries the certification of the Chief Finance Officer (S151 Officer).

#### **The Audit Opinion and Certificate**

This is provided by Grant Thornton following the completion of the annual audit by July of the following financial year.

#### **Annual Governance Statement (AGS)**

The AGS is not part of the accounts but shown alongside them. The statement sets out the main components of internal control and the framework within which the Council's internal control is managed and reviewed, including arrangements for internal audit. It also reports on significant weaknesses and areas for improvement identified and the actions taken to rectify or strengthen these areas. The statement is signed by the Chief Executive and the Leader of the Council.

#### **The Statement of Accounting Policies**

This explains the basis for the recognition, measurement and disclosure of figures and events in the accounts and is intended to aid the reader's understanding of the accounts.

## Core Financial Statements

### The Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund specific items of expenditure or reduce local taxation) and other unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance Account for Council Tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council. In order to aid clarity, the Council had an element of the general reserve earmarked for specific uses, these have now been established as Earmarked Reserves.

### The Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### The Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2017 £'000	<b>Balance Sheet Summary</b>	31 March 2018 £'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)
<b>110,485</b>	<b>Net Assets</b>	<b>147,362</b>
	<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
<b>56,048</b>	<b>Total Useable Reserves</b>	<b>71,631</b>
54,437	Unuseable Reserves	75,731
<b>110,485</b>	<b>Total Reserves (Net Worth)</b>	<b>147,362</b>

The Council's working capital ratio has increased (current assets / current liabilities) at 31 March 2018 to 4.0 (2.6 at 31 March 2017). The working capital provides an indication of the Council's ability to pay its debts within one year. The higher the ratio, the more liquid the organisation. An organisation would normally anticipate a ratio higher than 1.0.

### **The Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

### **Notes to the Core Financial Statements**

These provide supporting and explanatory information on the Core Financial Statements.

### **The Collection Fund Statement**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of Elmbridge as the billing authority in relation to the collection from taxpayers, and distribution to local authorities and the Government, of council tax and non-domestic rates.

In 2017/18 the Council joined a pooling arrangement with other Surrey District Councils, Surrey County Council and the London Borough of Croydon for Business Rates. As a result, the Council stands to gain an additional share of the pooling arrangement which would otherwise have been paid to Central Government. Due to the complexities of the way the Business Rates Collection Fund operates this will only be available to spend in 2019/20. The Council was not a member of a Pool in 2016/17.

### **Material Assets and Liabilities**

The Council purchased two large units of industrial/retail investment property during 2017/18. The units in Weybridge and Esher cost £17.6m and £15.0m respectively including stamp duty and other fees and costs. The properties are expected to produce a rental income yield of between 4%-5%.

As part of the contract to sell a surplus site at Stompond Lane the Council is committed to exercising a 'call and put option' within the Agreement to acquire a 500 square metre children's nursery to enable the shell and core of the building to be completed by the developer. The Council has budgeted £1.774m to purchase the property on completion, inclusive of stamp duty and other fees and costs.

The Council has entered into a contract for approximately £1.6m with Kier Construction Limited for the refurbishment of a car park at Drewitt's Court, Walton-on-Thames. Approximately £300,000 had been spent at 31<sup>st</sup> March 2018 and the remaining expenditure of £1.3m will be incurred during 2018/19.

### **Pensions**

These Statements have been prepared in accordance with International Accounting Standard (IAS) 19 – Employee Benefits. The Balance Sheet shows a Pensions liability of £59.2 million, which reduces the total reserves of the Council by some 29%. Further explanatory notes are provided in the Statement of Accounting Policies and in the notes to the Core Financial Statements.

## Significant Changes in Accounting Policies and Requirements

There have been no significant changes in Accounting Policies and requirements for 2017/18.

## Borrowing and Cash Flow

The Council has £42.0 million of borrowing outstanding at 31 March 2018 (£17.2 million – 31 March 2017) from the Public Works Loan Board (PWLB). An additional £25.5 million PWLB borrowing was arranged during the year, and £0.7 million repaid.

The Council has sufficient resources to fund its Capital programme but may decide to borrow based on interest rates and regulations. The Council is not allowed to borrow to fund revenue expenditure but has a balanced budget with its expenditure being financed from fees and charges, rental income from property holdings, government grants and Council Tax, although the grant from Central Government (Business Rates) is expected to significantly reduce by 2019/20.

## Capital Expenditure

During the year the following items of major capital works and purchases were undertaken:

2016/17 £'000	2017/18 £'000
14,676 Investment Properties	32,560
11,074 Sports Hub, Waterside Drive	6,710
- Waste Vehicles	3,336
308 Other Public Building Acquisition and Enhancements	1,797
563 Private Sector Housing Grants	542
153 Affordable Housing Grants / Loans	426
3,268 Grant Expenditure - CIL / ECIF / Other	635
453 Other	91
383 IT Development/Investment	390
124 Community Transport / Centre Enhancements	309
103 Car Park Improvements	723
187 Playground Refurbishments / Tennis Courts	285
<b>31,292 Total</b>	<b>47,804</b>

The total capital receipts received in the year were £26.1m including £23.2m for the sale of land at Stompond Lane, Walton-on-Thames.

The Council set its capital programme in February 2018 with spending plans being funded as follows:

	Total Funds Available at 31 March 2018 £'000	Budgeted Spend 2018/19 £'000
Capital Receipts	20,498	4,003
Capital Grants	14,691	9,578
Revenue Resources	1,647	1,647
Borrowing*	-	10,000
	<hr/> 36,836	<hr/> 25,228

\*Borrowing is subject to suitable investment/asset development opportunities being identified.

## **Significant Provisions or Contingencies and Material Write-Offs**

Except in relation to appeals against Business Rate Valuation, there have been no material provisions or write-offs made during the year. The revaluation exercise carried out for 1 April 2017 raised concerns in relation to outstanding appeals for the 2010 Valuation List for business rates. As a result, a specific provision has been made for a number of large properties. In addition, these revaluations has resulted in a significant increase in the Councils rateable value, a new process for challenging these values has been introduced, which has increased the uncertainty relating to the appeals. As a result, the provision has been increased by £1.4million.

## **Economic Climate**

In setting the 2017/18 budget there was still uncertainty about the ongoing impact on income streams such as car park income, council tax collection and planning fees, as a result of this uncertainty and any impact from BREXIT. However, overall the total income received from fees and charges during the year exceeded the budget. The income received from fees and charges is very much dependent on the disposable income of individuals and therefore remains an area of concern which will be closely monitored.

## **The adequacy of balances and reserves to withstand future financial pressures**

The Council maintains a level of General Fund balances to provide a measure of protection against risk. Without the protection provided by reserves, any unforeseen expenditure would have to be met either by increases in Council Tax or immediate savings (potentially through reductions in service levels and redundancies)

The Revenue Risk Reserve together with the Interest Equalisation Reserve are used to mitigate revenue budget risks and interest rate risks facing the Council during the year such as shortfall in income or increase in expenditure.

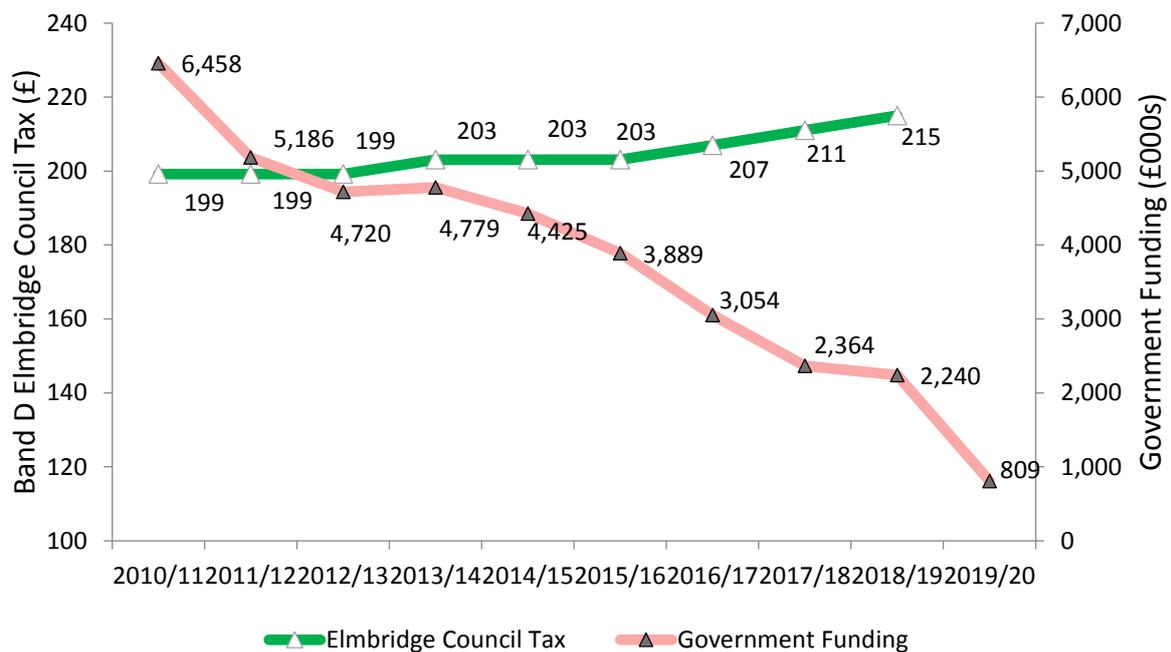
The Council is determined to address the financial challenges presented by the wider economic difficulties and stringent resource constraints by utilising focused risk management and by embracing all opportunities available to deliver more effective and efficient services for our community.

The forecast over the next two years is that in order to have a balanced budget the Council will need to find savings of approximately £3 million based on the Medium Term Financial Strategy approved by Council in February 2018. The Council manages financial risk by maintaining adequate reserves to help ensure that the medium-term policy programme is sustainable, in 2017/18, the 2018/19 Budget includes the use of £0.2 million of reserves.

A summary of the Medium Term Financial Strategy is set out below:

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Projection £'000	2020/21 Projection £'000
<b>Net Budget Requirement to Provide Services</b>	<b>17,911</b>	<b>17,493</b>	<b>17,120</b>	<b>18,170</b>
<b>Expenditure</b>				
Growth/Spending Pressures	905	907	250	250
Reduction in External Funding	-	-	200	200
Inflation on Contracts and Pay	537	421	600	800
Approved Savings/Fees & Charges	(1,860)	(1,701)	-	-
<b>Total Budget Requirement</b>	<b>16,366</b>	<b>16,805</b>	<b>18,020</b>	<b>19,270</b>
<b>Available Funding (Council Tax, Government Grants and Reserves)</b>	<b>16,366</b>	<b>16,805</b>	<b>16,446</b>	<b>16,177</b>
<b>Cumulative Budget Gap</b>	<b>0</b>	<b>0</b>	<b>1,574</b>	<b>3,093</b>
<b>Annual Funding Gap</b>	<b>0</b>	<b>0</b>	<b>1,574</b>	<b>1,518</b>

### Central Government Funding and the Council Tax between 2010/11 and 2019/20



- the Council's Council Tax increase is 8% over 8 years;
- Central Government Funding cuts are 87% by 2019/20;
- inflation (CPI) is 19% over 8 years.

## Organisational Overview and External Environment

Our Five-Year Vision (2018-2023) has been developed from extensive consultation with a range of stakeholders:

*“A responsive and effective Council, protecting and promoting the interests of residents and businesses and safeguarding our environment, while maintaining a community for all.”*

Our priorities support our Vision and are reviewed every year. For 2018/19 they are:

- **Character and Environment** – we will make Elmbridge a sustainable and attractive place
- **Quality Services** – we will work in partnership to ensure services are efficient, effective and offer value for money
- **Economic Development** – we will facilitate economic growth, including improved infrastructure and housing
- **Community Wellbeing** – we will listen to all of our residents and support communities

For more detail on the Council Objectives and Vision, please see the Council Plan 2018/19.

## Operational Models

The Council uses a number of operating models to transform its inputs into key services and outcomes. The main operating models are:

- the provision of services model – these services are provided at a net cost to the Council and must be provided under statute, such as Planning Services;
- the contribution to services model – some services within the Council contribute to other services and reduce the Council Tax requirement, these include off-street car parking and investment properties;
- the breakeven model – some services are required by statute to have no impact on the Council Tax, such as taxi licensing;
- the Building Control Mutualisation where Elmbridge Building Control Services Limited provides the Council's building control services and in which the Council owns a 20% stake;
- the on-street car parking model – on-Street Car Parking is a function of SCC and the Council agree to operate the service on their behalf, realising synergies with the off-street parking service, the service has a zero-net cost to the Council; and
- the Joint Waste Partnership model – the Council partners with other Surrey Districts in order to realise efficiencies in providing the Waste Collection service.

## Risks and Opportunities

### Risks

The Council's Risk Management Strategy requires the Corporate Strategic Risk Register to be reviewed on an annual basis. The Register contains details of major identified risks, which could affect the Council's ability to achieve its priorities during the financial year. These include:

- A reduction in/elimination of grant funding from external bodies including Surrey County Council
- Fluctuations in the property market affecting rental income generated from the Council's property portfolio.
- Adverse service planning conditions and/or significant loss of income resulting from changes in national economic conditions beyond the Council's control including the effects of welfare reforms, government and other external funding and other legislation and regulations.

For more information on identified risks please see the Council's Strategic Risk Register.

## Opportunities

The Council carefully monitors any future opportunities that may assist in delivering optimal outcomes and improve service provision. Significant future opportunities include:

- Establishing a housing company to provide affordable social housing in Elmbridge.
- Purchasing commercial properties to generate rental income and contribute towards minimising the Council Tax requirement.
- To further develop joint working and collaboration within Surrey, including maximising the financial benefit of the Business Rate Retention Scheme.
- Pursuing a prevention agenda that focuses on empowering individuals and communities to engage in healthy behaviours to reduce their risk of developing chronic diseases, and so relieving pressures on public spending.
- Promoting independent living and reduce isolation.