

# Revenue Outturn 2018/19

Report of the Finance Portfolio Holder

## Recommended:

1. That the Council's Revenue outturn for 2018/19, as shown in Annexes 1 and 2, be noted.
2. That the reasons for the budget variances, as shown in paragraph 3, be noted.
3. That the items shown in paragraph 3.19, totalling £229,400, be approved for carry forward into the 2019/20 revenue budget.
4. That the transfer to the Homelessness Grant Reserve of £280,200, the transfer to the Private Rented Sector Access Reserve of £115,000 and the transfer to the Environmental Service Clean Up Reserve of £21,700 as detailed in paragraph 3.10 be approved.
5. That the transfers to reserves as detailed in paragraph 4 be approved.

## SUMMARY:

- The Council's Revenue outturn for the year ended 31 March 2019 shows net General Fund expenditure of £11.251M (Annex 2).
- Following the completion of the revenue outturn work there is a positive variance to be allocated. Details of how this arose are discussed in more detail in paragraph 3. The utilisation of the variance is considered in paragraph 4.

## 1 Introduction

- 1.1 The General Fund covers all areas of the Council's revenue activities. This report summarises the total revenue expenditure for Services in 2018/19 which is summarised in Annex 1.
- 1.2 The summary in Annex 1 includes notional charges applied to the revenue account in respect of capital financing transactions and transfers to the pension reserve. Annex 2 shows the same information as Annex 1 with these charges stripped out. Throughout this report any comparisons between budget and actual expenditure will refer to the figures contained in Annex 2.
- 1.3 Where there have been significant variances from the original estimate to the final outturn figures, these are explained in paragraph 3.
- 1.4 The information in this report forms the basis of the Comprehensive Income and Expenditure Statement in the Council's Annual Statement of Accounts which is due to be audited in the coming months by Ernst & Young.

## 2 Background

- 2.1 The original revenue estimates for 2018/19 were approved by Council in February 2018. This report shows how the final figures compare to those approved in the original estimates and explains the reasons for significant variances.
- 2.2 The Council's Revenue outturn for 2018/19 shows a positive variance of £1.580M compared with the original estimate. This represents a 12.2% favourable variance on the Council's General Fund Requirements of £12.908M and details of the variance are explained in paragraph 3.
- 2.3 Annex 1 shows the full cost of Services which includes depreciation charges, charges to revenue for capital expenditure that does not generate new assets and notional adjustments in respect of the pension fund. Whilst it is important that these costs are known and included, they are also highly changeable and make comparisons with budgets very difficult.
- 2.4 Annex 2 strips out these charges to provide Councillors with a more understandable comparison of budget figures.

## 3 2018/19 Revenue Outturn

- 3.1 Annexes 1 and 2 show the revenue account outturn for 2018/19. They show a positive variance of £1.580M when compared with the original estimate.
- 3.2 The table below provides a summary of the main reasons for the variance with more detailed explanations in paragraphs 3.3 to 3.18:

	£'000
Employee costs (see paragraph 3.3)	574
Net additional property income (see paragraph 3.4)	422
Net additional income from Environmental Services (see paragraph 3.5)	105
Income from planning fees and building control fees (see paragraph 3.6)	(138)
Income from car parking and penalty charge notices (see paragraph 3.7)	(144)
Property costs - building maintenance (see paragraph 3.8)	(94)
Benefits overpayment recovery (see paragraph 3.9)	(45)
Government grants (see paragraph 3.10)	504

Investment income and borrowing costs (see paragraph 3.11)	441
Provision for bad debts (see paragraph 3.12)	179
Draw from income equalisation reserve not required (see paragraph 3.4)	(91)
Adjustment to income re the Chantry Centre (see paragraph 3.13)	889
Reduction in revenue contribution to capital re the Chantry Centre (see paragraph 3.13)	460
Transfer to Chantry Centre Planned Maintenance Reserve (see paragraph 3.13)	(1,349)
Transfer to Asset Management Plan Reserve agreed at Cabinet February 2019 (see paragraph 3.14)	(500)
Government grants adjustment (see paragraph 3.10)	(417)
Business rates (see paragraphs 3.15 – 3.18)	803
Other sundry variances	(19)
<b>Total surplus</b>	<b>1,580</b>

- 3.3 The employee costs budget for 2018/19 included a vacancy management provision set at 4% of the gross salary budget equating to £547,500. The actual outturn for employee costs has exceeded the provision by £574,000. In addition to the usual recruitment challenges across the authority, there have been some posts that have become vacant during the year and have been given up as savings as part of the 2019/20 budget process.
- 3.4 The net additional rental property income of £422,000 can be analysed as follows:
- The Council purchased a number of investment properties in 2018/19 which have been let to Valley Housing Limited. The net additional income from these properties after a contribution to the capital reserve was £12,000 which was not included in the budget.
  - Other additional rental income of £289,000 was received. This came from other corporate properties, Walworth and Portway Business Parks and other investment properties and mainly related to in year rent increases.
  - £91,000 was in relation to a rent deferral that was not required. This was to have been offset by a draw from the Income Equalisation Reserve which is no longer required.

- Approximately £30,000 of one off income was received relating to lease extensions and back dated rent.
- 3.5 The net increase in income from Environmental Service is made up of £88,000 from the Garden Waste scheme and £45,000 from the sale of dry mixed recycling offset by a reduction of £28,000 from glass recycling.
- 3.6 Income from planning application fees and building control fell short of the budget by £138,000.
- 3.7 Income from car parking and penalty charge notices fell short of the budget by £144,000.
- 3.8 This year has seen an unprecedented amount of reactive maintenance works. The total cost for reactive and planned maintenance has exceeded budget by £94,000. This can be attributed to the number of properties that the Council now owns.
- 3.9 Identification and recovery of Benefits overpayments was £45,000 lower than estimated. This is due to the fall in caseload and workload as working age customers move from Housing Benefit to Universal Credit.
- 3.10 Unbudgeted government grants of £504,000 have been received in the year. This includes:
- Housing grants of £395,200, including the Flexible Homelessness Grant (£228,700), the Homelessness Prevent Grant of £18,000, New Burdens grants of £33,500 and the Private Rented Sector Access Grant of £115,000. It is recommended that the full amount of £395,200 be transferred to earmarked reserves to be utilised in future years.
  - Environmental Service received a Clean-up grant in the last week of March of £21,700. It is recommended to transfer this to earmarked reserves to be utilised in future years.
  - The Revenues Service received various grants from the Department of Work and Pensions during the year. These have contributed approximately £51,000 to the surplus.
  - A Levy Surplus Allocation of £36,000 was budgeted for 2019/20 as notified from MHCLG as part of the 2019/20 Local Government Finance Settlement. This was actually received at the end of March and is to be included in the 2018/19 revenue figures.
- 3.11 Net investment income received in the year was £169,000 higher than anticipated. A further £272,000 saving in relation to the cost of borrowing has occurred because a loan was taken out much later in the year than originally budgeted.
- 3.12 A reduction of £179,000 is required to ensure that the bad debt provision is at the required level at the end of the year.

- 3.13 As per the report to Council on 13 March 2019, an adjustment has been made to transfer £1.349M to a new Planned Maintenance Reserve for the Chantry Centre.
- 3.14 The Revenue Budget report to Cabinet on 13 February 2019 anticipated a positive variance at outturn and a transfer of £500,000 in 2018/19 to the Asset Management Plan reserve was approved.
- 3.15 Transactions through the General Fund in relation to business rates income are difficult to predict and extremely volatile. Since 2015/16, the Council has experienced business rate growth and is therefore required to pay an immediate NDR Surplus Levy to Government. In addition, the Council receives grants for small business rate and other reliefs, and is entitled to retain 100% of business rates relating to renewable energy schemes within the Borough. These transactions are managed through both the General Fund and the Collection Fund Equalisation Reserve.
- 3.16 Business rates income is extremely vulnerable to the level of appeals that may occur as a result of the 2017 revaluation exercise. In addition, the Government maintains the power to take away all of the accumulated growth in income generated since 2013 in the reset of the Business Rates Retention Scheme in 2020. The Council maintains the Collection Fund Equalisation Reserve to try to smooth the impact of these unknowns.
- 3.17 In 2018/19, the Council has continued to experience business rate growth and is still required to pay a surplus levy to Government, but the impact of the uncertainty around the provision for appeals has resulted in an overall deficit on the business rates collection fund of £2.283M. The Council will repay their share of this deficit, £913,000, in 2020/21.
- 3.18 The variances against budget are detailed in the table below.

	£'000
Adjustment from 2017/18	(77)
Additional Government grants received	240
Reduction in provision for surplus levy	324
Additional renewable energy business rates retained	316
<b>Net impact of business rates on General fund in 2018/19</b>	<b>803</b>

- 3.19 Two items have been identified where a budget was included in the 2018/19 estimate but was not spent by the end of the year as per the table below. The total of £229,400 is recommended to be carried forward into 2019/20.

	£'000
New Forest Mitigation	172
Community & Leisure – snagging works at Picket Twenty and Picket Piece	57
<b>Total to be carried forward to 2019/20</b>	<b>229</b>

#### 4 Transfer to / from Reserves

##### General Reserves

- 4.1 The recommended prudential minimum level for unallocated general reserves is £2M. This represents the Council's working balance to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing.
- 4.2 The balance at the start of the year was £2M and this remains unchanged at 31 March 2019.

##### Earmarked Reserves

- 4.3 The amount available to allocate to earmarked reserves as a result of the surplus in 2018/19 is £1.580M.
- 4.4 There are a large number of ways in which the Council could utilise this sum. It is considered that the most appropriate use is to split it as detailed in the following table:

	£'000
Capacity Building Reserve	300
Special Projects Reserve	150
Asset Management Plan Reserve	670
Local Development Fund Reserve	400
Apprenticeship Reserve	60
<b>Total to be transferred to reserves</b>	<b>1,580</b>

- 4.5 The Capacity Building Reserve was established by Cabinet in October 2009 to explore and implement "spend to save" initiatives. Originally, this reserve had £250,000 allocated to it. Taking into account known commitments, the balance is estimated to be fully depleted by 31 March 2020. A transfer of £300,000 will reflate the balance to a forecast £277,000 at March 2020.

- 4.6 The Special Projects Reserve was established by Cabinet in June 2010 to provide funding for any new, one-off projects. Originally the reserve had £100,000 allocated to it. Taking into account known commitments, the balance is estimated to be £77,000 at March 2020. A transfer of £150,000 will reflate the balance to £227,000. This will be available to finance future corporate projects, such as the Andover Town Centre Re-development project and Romsey Future South of Town Centre project.
- 4.7 The Asset Management Plan reserve is estimated to have a balance of £541,000 by 31 March 2020. The recommended transfer to reserves will increase the balance to £1.211M, which, when added to the annual budgeted contribution to the reserve of £1.217M, will leave a total of £2.428M towards the costs of the 2020/21 programme of works.
- 4.8 The Local Development Fund Reserve is forecast be fully utilised by March 2020. The transfer of £400,000 will reflate the balance to a forecast £215,000 at March 2020.
- 4.9 The Apprenticeship Reserve enables services to fund an apprentice post which is in addition to their existing establishment. Currently three posts have been approved to be funded from this reserve and the transfer of £60,000 will enable these costs to be fully covered.

## **5 Resource Implications**

- 5.1 This report shows that the Council had a budget surplus in 2018/19 of £1.580M. This amount will be transferred to reserves to be used in future years.
- 5.2 As discussed above the General Fund balance is to remain at £2M; a level which is prudent in the current economic climate.
- 5.3 Some of the variances that have been identified throughout this report have already been taken into account in setting the 2019/20 budget, others will be considered as part of the Corporate Challenge process for 2020/21 to determine whether there are any on-going savings, or additional income that could help reduce the Council's budget gap.
- 5.4 Members will recall that one of the recommendations from last year's Peer Challenge Review was to explore the common causes of underspends within the Council's budget. The Head of Finance will be reporting later in the year as part of the Medium Term Financial Strategy on actions to be taken to address this.

## **6 Risk Management**

- 6.1 An evaluation of the risks associated with the matters in this report indicate that further risk assessment is not needed because the issues covered do not represent significant risks.

## 7 Equality Issues

- 7.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

## 8 Conclusion and reasons for recommendation

- 8.1 This report shows that actual net General Fund expenditure in 2018/19 was £1.580M less than the Original Estimate and explains the significant causes of this variance. The report recommends transfers to the capacity building reserve to fund future initiatives, the special projects reserve to fund future one-off projects, the asset management reserve for future maintenance and replacement of Council assets, the local development fund reserve and the apprenticeship reserve.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2	File Ref:	N/A
(Portfolio: Finance)			
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