

2020/21 Outturn Month 12 (March 2021)

Strategy & Resources Committee – 2 December 2021

Report of: Anna D'Alessandro – Chief Finance Officer (Section 151)

Purpose:

The purpose the report is to provide Members with the Council's 2020/21 Outturn position on Revenue, Capital and HRA

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report accompanies the presentation that outlines the overall Council **2020/21 budget position at the end of March 2021 (Outturn)** and is supported by the initial independent review of the Council's Financial Management and Reporting arrangements by Laura Rowley.

This report supports the Council's priority of:

Effective budget monitoring giving a clear and precise overview of the Overall Revenue and Capital financial position (including HRA).

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Recommendations to Committee:

That the Committee:

- A. Notes the Council's Revenue and Capital positions for the year (Appendix A)
- B. Approves the following transfers to Reserves from the Outturn position as set out below:
 - **£682k Planning Reserve** to support the delivery of the Local Plan and other general Planning related activities (including £130k Homes England money)
 - **£134k Reserve to mitigate future financial uncertainties/risks in the medium-term** and support budget planning
 - **£42k Academy/Northgate Reserve**
 - **£27k CV-19 Reserve** to support future CV-19 related spend
- C. Approves Capital carry forwards of £4.3m from 2020/21 to future years (£2.5m to 2021/22 and £1.8m 2022/23)
- D. Notes the gap mitigation strategy regarding the request for capitalisation directive for 2022/23 (**Appendix A slide 5**), and
- E. Notes the independent review of the Council's Financial Management and Reporting arrangements (**Appendix B**).

Reason for recommendation:

Please refer to slide presentation (Appendix A) and the independent review of the Council's Financial Management and Reporting arrangements (Appendix B) attached.

Background

1. 2020/21 commenced in exceptional circumstances during the first national CV-19 lockdown. Budget of £10.6m seemed to provide a stable base to tackle CV-19, however the year started with significant uncertainty. In May (Month 2) 2020, BAU forecast balanced budget with a potential CV-19 deficit of £3.9m as reported to the Strategy & Resources Committee.
2. At M6, following a mid-year review of the Capital Budget, the budget was reviewed and revised downwards by £104.7m to £15.4m mainly due to a reduction on the Property Development Fund (c£98m) and Council House Building programme (£5.5m).

3. During 2020/21 we undertook the Finance Improvement Programme (FIP) to enable the Council to regain financial control by getting the basics right/building the foundations. However, in preparation for the 2020/21 Outturn position a c£920k gap in the 2020/21 budget was identified. Grant Thornton LLP UK was commissioned to undertake a Forensic Review. This gap has now been confirmed and the outcome included in this report. This gap has been mitigated in-year by underspends across all Services.
4. Refer Appendix A Slide 1 for further background detail on outturn position.

2020/21 – General Fund Revenue Outturn

5. After taking into account the c£920k gap, the 2020/21 Outturn position for the Council is a £885k surplus. (Appendix A slide 4)
6. To summarise the surplus is due to:
 - £858k BAU surplus for 2020/21;
 - £27k surplus against the Emergency/General CV-19.
7. The total surplus has been transferred to Reserves:
 - **£682k Planning Reserve to support the delivery of the Local Plan and other general Planning related activities:**
 - **£130k Homes England monies**
 - **£552k Planning Reserve.** This Reserve has been established from net underspends in the 2020/21 Planning budget
 - **£134k Reserve to mitigate future financial uncertainties/risks in the medium-term and support budget planning.** This Reserve has been created to support the future challenges associated with medium-term financial uncertainties/risks
 - **£42k Academy/Northgate Reserve.** This is a new Reserve established to support the delivery of the new Revenues/Benefits system in 2021/22
 - **£27k CV-19 Reserve** to support future CV-19 related spend. This is made up of the £19k surplus CV-19 general/emergency grant funding and £8k Discretionary Housing Payments (specific CV-19 grants)

2020/21 – Capital Outturn

8. **February 2020 the Approved Capital Budget was £120.1m, reset to £15.7m at** as part of a mid-year review (M6). It was proposed to revise the Capital Budget to reflect the most accurate position which changed substantially in-year. The biggest single change was the removal of £98m from the Property Development Fund as there were no plans for this expenditure.
9. Improvements required to Capital governance, monitoring and reporting will be undertaken as part of the TFT Programme

10. Against a combined General Fund and HRA **£15.7m Capital Programme Budget**, spend for the year was **£11.2m; slippage of £4.3m (28%); underspend of £0.2m.**
11. Proposals to carry forward the £4.3m slippage to future years (£2.5m to 2021/22 and £1.8m 2022/23). **Refer Annex 3**

2020/21 – HRA Outturn (Slide 11 & 21)

12. HRA is a ringfenced account and sets a balanced budget each year. For 2020/21 the HRA budgeted to make a £1,038k transfer to Reserves, to fund current and future capital expenditure.
13. **The HRA has achieved a greater surplus than budgeted by £318k.** This is an improvement of £262k on the M11 reported position.
14. As a result of the significant surplus position the Council has outturned and the 15 recommendations from the GT review, a prudent way forward was to undertake the follow:
 - **A Line-by-Line Budget Review for 2021/22** has been undertaken. Outcomes of this review have informed the Month 6 position as set in the 22/23 Draft Budget Report. The findings of this review will be taken to Committee in January 2022.
 - **A Fundamental/Root and Branch Review into the Council's Financial Management & Reporting Arrangements.** The review is currently being undertaken by an external independent professional (Laura Rowley) to ensure we have a solid foundation on which to launch the Finance Transformation Programme. Her interim report is **Appendix B**

Key implications

Comments of the Chief Finance Officer

15. The Council has a duty to ensure its expenditure does not exceed resources available. The short and medium-term financial outlook remain uncertain.
16. On 8th June S&R commissioned Grant Thornton LLP UK (GT) to undertake a Forensic Review and Fact Finding into the c£920k potential budget gap. As a result, we have been unable to present the 2020/21 Outturn position to S&R before now.
17. The work of GT is now complete, and they have confirmed that there is a budget gap in 2020/21 of c£920k. This has been taken into account in finalising the Council's outturn. Appendix A Slide 5 outlines the mitigation strategy. We have accepted all of GT's 15 recommendations to ensure a tighter grip on the financial control environment in the future. The delivery will be monitored through an Action Plan as part the TFT.

18. Significant progress has been made to understand the underlining financial arrangements to ensure that the transformation work is built on solid foundations.
19. Much work has been undertaken on the budget setting process for next year and into the medium-term indicates that the Council's finances will continue to be constrained, as they have been for much of the past decade. This subsequently places an onus on the Council to continue to consider issues of financial sustainability as a matter of urgency in order to ensure stable provision of services in the future. Within this context the Council will continue to develop and implement plans to ensure that the delivery of services is contained within resources and we work towards closing the medium-term gap.
20. The Section 151 Officer confirms the financial information presented in this report has been based on reasonable working assumptions, taking into account all material, financial and business issues and risks.

Comments of the Head of Legal Services

21. The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.
22. The Committee should be aware that if the Section 151 Officer, at any time, is not satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget they must formally draw this to the attention of the Committee and the Council must then take immediate steps to ensure a balanced in-year budget, whilst complying with its statutory and common law duties.
23. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered, and that any new expenditure is contained within the available resources. The Monitoring reports set out the additional detail so that Members can get a feel for where the potential issues are.
24. Members will be updated on the findings on the commissioned forensic review outcomes once their report has been finalised.

Equality

25. This report does not disadvantage or discriminate against any different groups with protected characteristics in the community.

Climate change

26. There are no significant environmental / sustainability implications associated with this report.

Appendices

Appendix 'A' – 2020/21 Outturn Report

Appendix 'B' – Independent Review of Tandridge District Council's Financial Management and Reporting Arrangements [Laura Rowley]