

**REPORT TO THE STRATEGY & RESOURCES COMMITTEE – 9TH JULY 2020  
AGENDA ITEM 5**

**REVENUE BUDGETS AND CAPITAL PROGRAMME –  
2019/20 OUTTURN**

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Purpose of Report:	To report to Members upon the provisional outturn position for 2019/20 of the General Fund, Housing Revenue Account and the Capital Programme.
Publication status:	Unrestricted.
Recommendations:	A. the draft financial position of the Council's outturn for 2019/20 be noted; and  B. it is recommended to Council that the Capital Programme be increased by £38,139,248 in 2020/21 and £1,317,500 in 2021/22 to reflect the slippage of capital underspend from the 2019/20 financial year (total slippage of £39,456,748).
Appendices	Appendix A - Comparison of General Fund 2019/20 outturn variations compared with those forecasts reported to Committee throughout the year.  Appendix B - Comparison of Housing Revenue Account 2019/20 outturn variations compared with those forecasts reported to Committee throughout the year.  Appendix C - Capital outturn and budget slippage.
Background papers defined by the Local Government (Access to Information) Act 1985	None

1. Background

- 1.1 Budget monitoring reports have been presented to Members during the course of 2019-20. This report now discusses the Outturn position for 2019-20. In light of the Coronavirus pandemic, and the additional pressure this has placed on Councils and their finance teams, the deadline for the completion of the 2019-20 Statement of Accounts has been extended. We are now working to a date of 31<sup>st</sup> July 2020 which we have agreed with our external auditors.
- 1.2 The external audit for 2019/20 is scheduled to commence in early August. This will be the second year that the external audit will be carried out by the Council new auditors, Deloitte LLP. The main audit of the accounts will take place in August and September with the statutory deadline for publishing the accounts revised to 30<sup>th</sup> November 2020.

1.3 This report is designed to give this committee an overview of the Outturn for 2019/20 and the headline position, rather than a detailed analysis of the accounts which will be presented to this committee at a later date. This report is produced before the Section 151 Officer signs the draft accounts. The outturn position may therefore be subject to change before the accounts are completed or during the external audit process. However it is not anticipated that there will be any further changes to the 2019/20 Outturn prior to signature.

2. General Fund Revenue Account 2019/20

2.1 The revenue outturn position for the General Fund is adverse with a net overspend of £1,990,857. This compares to the position last reported to Members in March 2020 giving the forecast outturn for the in-year budget monitoring to the end of February, where a year end overspend of £1,606,624 was forecast. It should be noted that the February monitoring information was prepared for the Strategy and Resources Committee which was scheduled to take place on the 26<sup>th</sup> March 2020, but was cancelled due to the onset of the pandemic.

2.2 A summary of the key General Fund variances is also shown in the table below, with explanations of the key variances set out in paragraph 2.3 of this report. **Appendix A** sets out a detailed comparison of General Fund outturn variations compared with those forecasts report to this Committee throughout the year.

Committee/Area	2019/20 Budget	Outturn	Variance (favourable) /adverse	% Variance (favourable) /adverse
<b>REVENUE</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
Strategy & Resources	1,110,150	2,143,638	1,033,488	93%
Community Services	6,472,650	6,913,341	440,691	7%
Housing	809,900	651,737	(158,163)	(20%)
Planning	2,049,270	2,724,111	674,841	33%
<b>General Fund Revenue (Net Total)</b>	<b>10,441,970</b>	<b>12,432,827</b>	<b>1,990,857</b>	<b>19%</b>

2.3 The main items making up the variances in the General Fund by Committee are:-

Strategy & Resources Committee overspend of £1,033,488:

- Salaries overspend of £445,294 – Following the introduction of Customer First this overspend has arisen from the need to maintain the continuity of service provision. The additional costs result from a combination of factors; early departure costs and additional costs following delays in the exit of some permanent staff and from difficulties and delays in recruiting permanent staff. This resulted in the recruitment of temporary staff, agency staff and consultants in order to ensure the maintenance of service provision.
- Additional Treasury Income of £55,013 - Due to acquisition of Castlefield House in December resulting in additional interest income from Gryllus.
- Printing and postage underspend of £46,700 due to lower volume of usage.

- Bad Debt Provision overspend of £51,631 – An increase in the amount of aged debt which is considered to be potentially uncollectable requires additional Bad Debt Provision.
- Collection Fund shortfall in income of £652,101. This is attributable to -
  - a deficit on the Collection Fund in respect of the Council Tax surplus of £87,524 in 2019/20. At the time of budget setting the Councils share of the surplus was estimated at £125,000, however the final position was a surplus of £37,976.
  - a surplus on the Collection Fund in respect of NNDR in of £234,550 in 2019/20. No surplus or deficit was anticipated at budget setting.
  - a shortfall in Section 31 Grant of £630,082
  - an adjustment to S31 Grant in respect of previous years of £169,041

Planning Committee overspend of £674,841 :

- Salaries overspend of £546,640 - Following the introduction of Customer First this overspend has arisen from the need to maintain the continuity of service provision. The additional costs result from a combination of factors; early departure costs and additional costs following delays in the exit of some permanent staff and from difficulties and delays in recruiting permanent staff. This resulted in the recruitment of temporary staff, agency staff and consultants in order to ensure the maintenance of service provision.

- Planning Applications and Advice overspend of £702,754 -

Legal fees due for the Felbridge Junction appeal of £461,000 have been included in the outturn. Negotiations with one of the parties involved in the final settlement are still ongoing. It is therefore possible a lower figure may be agreed by either before the draft accounts are prepared in which some of provision may be released. However based on current progress at this time this is considered unlikely. There is an overspend in relation to an external contract with Terraquest of £97,000. Terraquest were appointed following Customer First to deal with the planning validation as a result of staffing shortfalls. This contract which was underperforming has been terminated and the work has been taken back in house. This was reported to Members in an earlier cycle. In addition there is an under recovery of income on planning fees of £75,000 and on Developer Pre- Application meetings of £30,754. This is attributable to Brexit uncertainty and the general economic climate. There are also a number of other overspends; an under recovery of income on Members presentations of £12,000 and other minor overspends of £27,000, including consultancy and counsels fees.

- Enforcement underspend of £36,644 - This arises because of a successful bid for additional grant funding from the MHCLG to enable improvements to be made to the Planning Enforcement service. Additional income has also been received from fees for a Planning Enforcement notice.
- Local Plan underspend of £436,991 - This has arisen due to less than expected spend on consultants and counsels fees.

- Neighbourhood Plan underspend of £19,664 - Due to additional grant received.

Community Services Committee overspend of £440,691:

- Salaries overspend of £103,500 – Following the introduction of Customer First this overspend has arisen from the need to maintain the continuity of service provision. The additional costs result from a combination of factors; early departure costs and additional costs following delays in the exit of some permanent staff and from difficulties and delays in recruiting permanent staff. This meant that it was necessary to recruit temporary, agency and consultancy staff in order to ensure the maintenance of service provision.
- Tandridge Commercial Services overspend of £147,672 - This arises following the centralisation of call centre staff as part of Customer First and will mean that Tandridge Commercial Services may lose the recovery of overheads previously charged as part of the overall service costs. Officers will be carrying out an in-depth review of overhead recoveries to ensure that these costs are apportioned accurately between services.
- High risk tree works overspend of £6,300 - It should be noted that in future years the tree spend budget has been increased by £60,000 to an overall budget spend of £110,000.
- Sports and Recreation pavilions overspend of £16,328 - To ensure the Council was compliant with Health and Safety rules, Legionella inspections had to be carried out in all of the Council owned pavilions.
- Additional car parking revenue of £7,800.

Housing Committee underspend of £158,163:

- Salaries overspend of £302,905 - Following the introduction of Customer First this overspend has arisen from the need to maintain the continuity of service provision. The additional costs result from a combination of factors; early departure costs, additional costs following delays in the exit of some permanent staff and from difficulties and delays in recruiting permanent staff which resulted in the recruitment of temporary staff, agency staff and consultants in order to ensure the maintenance of service provision. The closure of the Douglas Brunton Centre has also added additional redundancy costs.
- Housing Benefit Payments & Recovery net underspend of £206,200 - The recovery of Housing Benefits overpayments was below budget by £237,500. However, this was more than offset by a writeback from the overpayment bad debt provision of £387,000. There was a further net underspend of £56,700 on other budgets within this area.
- The Douglas Brunton Centre's budget has been overspent by £30,458. Of this overspend £18,596 is due to a loss of 6 months sales income and the annual membership fees as a result of transferring management to the Westway Centre and £11,862 is due to repairs expenditure to meet Health and Safety requirements prior to handover.

- Meadowside has underspent by £18,068 due to an increase on sales and an underspend on the repairs budget.
- Additional Grant has been received for Syrian refugees resulting in an underspend of £58,709.
- Homelessness has underspent by £170,788 due to additional Central Government grant plus a transfer in from the homelessness reserve.
- There is an underspend on Housing Benefit administration due to additional Government grant.
- Private Sector Housing Enforcement overspend of £18,578 – A charge by Mole Valley for a shared member of staff has resulted in an overspend of £18,578. Provision has been made in the salaries budget for 2020/21 to cover this work.

2.4 Budget managers will review their variations to budget in 2019/20 when completing budget monitoring reports for the current year. Managers will be requested to review the variations and identify, any recurring expenditure patterns which impact on the 2020/21 budget which need to be managed. They will also identify if there are any budget pressures which will need to be considered within the 2021/22 budget process which will commence later this year. However, given the tight financial position facing the Council any increases in budgets would need to be funded from compensating savings from elsewhere in the budget.

2.5 Salaries budgets were overspent by £1,397,600 in 2019/20. Officers have been working hard to control salaries expenditure on additional employees, agency staff and consultants. Significant effort was put in during 2019/20 to control expenditure on temporary staff and contractors once the scale of the financial impact from the temporary staffing measures arising from the implementation of Customer First became clear. It was necessary to introduce centralised control in respect of the recruitment of all staff at the centre and this is now being rigorously managed. These controls have prevented the staffing overspend being very much greater in 2019/20, than it otherwise would have been. In 2020/21, these arrangements are working effectively in controlling expenditure upon salaries and staffing. These processes will be maintained during this year and beyond.

### 3. Housing Revenue Account 2019/20

3.1 **Appendix B** sets out a detailed comparison of HRA outturn variations compared with those forecasts reported to this Committee throughout the year. A number of variances have arisen during the close down process which has change the HRA from being in the underspend position reported to Members throughout the year to the overspend positions detailed.

3.2 The Housing Revenue Account produced a balanced budget which exactly matches the estimate, any surplus or deficit against the budget is transferred to/from reserves and so the overall position on the account at the end of the year will always be zero. The transfer to reserve in 2019/20 will be £795,320. This transfer to reserves compares to the budget where a transfer to reserves of £1,320,597 was forecast. The transfer to HRA reserves was £525,277 less than budgeted for due to the major variations discussed below.

### 3.3 Major variations for the HRA were as follows:

- £168,500 overspend on Salaries due to the need to maintain service provision following the introduction of Customer First.
- £180,800 overspend on Service Costs. This comprises of two main factors:
  - The depreciation charge for the year was £293,800 greater than budgeted for (a total charge of £5,153,700). Depreciation is a real charge for the HRA affecting the bottom line. The depreciation charge is transferred to the Major Repairs Reserve where the funds are used to finance capital expenditure to maintain the HRA stock. This overspend could not be forecast earlier as the charge for depreciation is based on asset values provided by the Councils valuers at the 31<sup>st</sup> March 2020.
  - There was a net underspend of £113,000 in other service cost areas, with the largest single element being an underspend of £86,000 on consultancy and legal costs.
- £65,500 overspend on Corporate Support Service recharges due in the main to an additional pension charge to the HRA for unfunded pensions.
- £86,900 underspend on Repairs and Maintenance costs.
- £100,700 underspend on interest payable on loans (due to re-financing at lower rates than forecast).
- £255,400 adverse variance on Rental Income from Council Dwellings. This is due to an error in closing the account for the prior year, where £265,000 of income was accounted for in 2018/19 rather than in 2019/20. This was reported as a positive variance for 2018/19 in the outturn report to Members at the 13<sup>th</sup> June 2019 Strategy & Resources Committee.
- £57,700 adverse variance on Garage income due to lower demand than forecast. The budget for 2020/21 has already been revised lower to a more realistic estimate.

3.4 In relation to Right to Buy sales during 2019-20, these amounted to 7 sales compared to an original estimate of 8 sales. This has generated total capital receipts of £1,111,810. Income from Right to Buy sales can be particularly volatile. The last 5 years has seen some volatility in sales with 21 sales in 2015/16, 10 in 2016/17, 8 in 2017/18, 11 in 2018/19 and 7 in 2019/20.

## 4. Reserves

4.1 To finance the General Fund overspend there will be a call on reserves. The table below shows the opening and closing position:

	£000
General Fund Working Balance 1st April 2019	2,326
Other GF Usable reserves (Earmarked) 1st April 2019	<u>3,334</u>
Total GF Reserves 1st April 2019	5,660
Use of Reserves in 2019/20	<u>(1,991)</u>
Closing Reserves Balance 31st March 2020	<u><u>3,669</u></u>

4.2 The Council now has a minimum level of reserves at the end of 2019/20 and consequently it will be necessary to be very prudent going forward in order to prevent the Council ending up with a deficit on General Fund reserves. If the Council ends up with a deficit on its reserves, it will be necessary for the council to rectify the deficit and rebuild its reserves at the next available budget setting process.

4.3 The HRA Reserves position is shown in the table below:

	Working Balance £000	Repairs Reserve £000	New Build Reserve £000	Total Reserves £000
Opening balance 1st April 2019	750	454	5,552	<b>6,756</b>
Transfer to Reserves	0	265	530	<b>795</b>
Used to finance capital expenditure	0	(31)	(1,150)	<b>(1,181)</b>
Closing balance 31st March 2020	<b>750</b>	<b>688</b>	<b>4,932</b>	<b>6,370</b>

4.4 In 2019/20 the HRA has transferred £795,320 to reserves in the previously agreed proportion of 1/3 to the Repairs Reserve and 2/3 to the New Build Reserve.

## 5. Capital Programme 2019/20

5.1 A summary of the capital budget variances is also shown in the table below, with explanations of the key variances set out in the following paragraphs. Appendix C(i) sets out a detailed comparison of Capital outturn variations compared with budget broken down by scheme. Appendix C(ii) gives narrative details and budget managers comments on the outturn position for each scheme.

	<b>2019/20 Budget</b>	<b>Outturn</b>	<b>Variance (favourable) /adverse</b>	<b>% Variance (favourable) /adverse</b>
<b>CAPITAL</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
General Fund Capital	71,930,520	33,735,578	(£38,194,942)	-53.1%
HRA Capital	10,377,900	8,125,885	(2,252,015)	-21.7%
<b>Capital Programme (GF &amp; HRA) Net Total</b>	<b>82,308,420</b>	<b>41,861,463</b>	<b>(40,446,957)</b>	<b>-49.1%</b>

5.2 The annual capital budget amounted to £82,308,420. The outturn position for capital expenditure shows a total capital spend of £41,861,463 resulting in a net underspend of £40,446,957.

5.3 The General Fund capital programme is underspent by £38,194,942 in comparison with the budget of £71,930,520, mainly because of :-

- An underspend on the Investment and Development Fund of £33,707,456 due to less investment property purchases than expected.
- Delayed expenditure on purchase of Waste Collection Vehicles of £3,500,000 which is expected to occur in 2020/21.
- No expenditure on Public Conveniences Capital Works resulting in an underspend of £275,000.
- An underspend of £177,272 on Park, Pavilions & Open Spaces.
- An underspend of £152,735 on Council Office Buildings.
- An underspend on Land / Asset Development of £134,041, due to less activity.
- An underspend on Disabled Facilities Grants expenditure of £128,366. This is demand lead expenditure dependant on applications and referrals from Occupational Therapy.

5.4 The HRA capital programme is underspent by £2,252,015 in comparison with the budget of £10,377,900. The major items are:

- An underspend on Council House Building of £2,277,034.
- An overspend on Works to Void Properties of £138,663.

5.5 Of the reported underspend, £39,456,748 is due to slippage i.e. expenditure on individual schemes which, whilst unspent during 2019/20, is still necessary expenditure to complete the schemes. It is therefore requested that the £39,456,748 be carried forward and added to the capital programme budget for future years. The table below shows the slippage requested for each scheme:

Capital Scheme	Slippage £	Reason for Slippage
<b>GENERAL FUND</b>		
<b>Community Services</b>		
Vehicle Fleet Renewals	59,900	Renewals did not occur in 2019/20
Car Parking	17,300	Delay in planned works
Children's Playground Equipment	27,000	Delay in planned works
Purchase of Waste Collection Vehicles	2,800,000	Delayed expenditure on purchase of Waste Collection Vehicles
Land Drainage Capital Works	5,000	Delay in planned works
Park, Pavilions & Open Spaces	88,900	Delay in planned works
Playground Improvements Match Funding Pot	50,000	Delay in planned works
Litter Bins	20,000	Delay in planned works
Public Conveniences Capital Works	275,000	Delay in planned works
Roads & Paths St Marys Church	7,600	Delay in planned works
Plant, Furniture & Equipment (GF)	(20,760)	Expenditure made in advance of 2020/21 Budget
Refuse, Recycling and Food Waste bins	(41,692)	Expenditure made in advance of 2020/21 Budget
<b>Community Services Total</b>	<b>3,288,248</b>	
<b>Housing General Fund</b>		
Disabled Facilities Grants Mandatory	0	Underspend on DFG is transferred to reserves for use in future years
<b>Housing GF Total</b>	<b>0</b>	
<b>Resources Committee</b>		
Property Development Fund	33,707,500	Underspend on the Investment and Development Fund of £33,707,456 due to less investment property purchases than expected
Land/Asset Development	134,000	Delay in programme of works
<b>Resources Total</b>	<b>33,841,500</b>	
<b>General Fund Total</b>	<b>37,129,748</b>	
<b>Housing Revenue Account</b>		
Council House Building	2,277,000	Minor delays in the overall build programme. Split £959,500 2020/21 and £1,317,500 2021/22
Housing Management Software	50,000	Budget not spent but improvement works for Orchard identified for 2020/21
<b>HRA Total</b>	<b>2,327,000</b>	
<b>Capital Programme Total</b>	<b>39,456,748</b>	

6 Legal Implications

6.1 Section 151 of the Local Government Act 1972 requires all Councils in England and Wales to make arrangements for the proper administration of their financial affairs. This report satisfies the requirements of this legislation in terms of reporting on the Council's budgets.

7 Conclusion

7.1 This information is being provided to ensure that Members of this Committee are kept informed, at an early stage, of the final accounts position of the Council prior to the start of the external audit.

8 Equality Impacts

8.1 Consideration of impacts under the Public Sector Equality Duty are as follows:

Questions	Answer
Do the proposals within this report have the potential to disadvantage or discriminate against different groups on the community?	No
What steps can be taken to mitigate any potential negative impact referred to above?	Not applicable

9 Data Protection Impacts

9.1. Following the completion of a Data Protection Impact Assessment, consideration of potential data protection implications arising from this report are as follows:

Questions	Answer
Do the proposals within this report have the potential to contravene the Council's Privacy Notice?	No
Is so, what steps will be taken to mitigate the risks referred to above?	Not applicable

10 Climate change impacts

- 10.1. This report does not contain proposals that would impact on the Council's commitments to taking action on climate change.

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