



Report To: Cabinet

2 October 2019

Lead Cabinet Member(s): Councillor John Williams,
Lead Cabinet Member for Finance

Lead Officer: Peter Maddock, Head of Finance

SUBJECT: 2018/2019 PROVISIONAL GENERAL FUND REVENUE AND CAPITAL BUDGET OUTTURN

PURPOSE

1. To receive the General Fund and Capital outturn position for the financial year 2018/2019 with Reserve balances as at 31 March 2019, and to agree proposed changes to the Capital Programme.
2. This is a key decision as there are resource implications directly arising from the report. The report provides a statement of the year-end financial position and progress with approved capital investment projects and identifies the use of the revenue outturn surplus for transfer to earmarked Reserves and also proposes variations to the approved capital programme.

RECOMMENDATIONS

3. **That Cabinet is requested to consider the report and, if satisfied, to:**
 - (a) **Acknowledge the 2018/2019 General Fund revenue outturn position and the net overspend on day to day services in the year of £0.541 million and the explanations provided for the variances compared to the approved 2018/2019 revenue budget;**
 - (b) **Acknowledge the additional surplus primarily from Business Rates and related Grants of £6.519 million and how this has occurred;**
 - (c) **Acknowledge the consequent increase in the General Fund Balance as at 31 March 2019 of £5.978 million to £17.446 million;**
 - (d) **Recommend to Council that the Business Efficiency Reserve be re-designated to the Transformation Reserve and that the sum of £3 million be appropriated from unallocated General Fund Reserve to enable the service transformation and organisational change programme to be resourced, noting that the General Fund unallocated reserve would then be £14.446 million;**
 - (e) **Recommend to Council the General Fund Revenue Carry Forwards in the sum of £1.227 million as outlined in Appendix A;**

- (f) **In relation to the Capital Programme:**
- (i) **Note the 2018/2019 capital budget outturn of £27,190 million;**
 - (ii) **Recommend to Council the carry forwards of £6.464 million in relation to General Fund capital projects due mainly to slippage as outlined in the report;**
 - (iii) **To note that a full review of the Capital Programme will be submitted to Cabinet at its November 2019 meeting to include re-phasing of the existing programme and new Capital bids for the next budget cycle.**

REASON FOR RECOMMENDATION

4. To advise the Cabinet of the 2018/2019 revenue and capital outturn position, the impact that this will have on the General Fund and to consider and, if satisfied, support the carry forward of slippage within the 2018/2019 capital programme. To note that a further review of the Capital Programme performance will be carried out and presented to Cabinet at its meeting on 6 November 2019.

BACKGROUND INFORMATION

2018/2019 Revenue Budget – Outturn

5. This report sets out the 2018/2019 Outturn position with a brief commentary on some of the variances. The Council's draft Statement of Accounts will be submitted to Audit Committee on 26 November 2019 for approval; it is not envisaged that there will be any issues arising that will impact on the Outturn.
6. The table below sets out the Outturn position for each Directorate:

	Current Net Budget £ million	Outturn £ million	Variance £ million	%
Housing Services	1.373	1.129	(0.244)	(17.7)
Health & Environmental Services	6.639	6.523	(0.116)	(1.7)
Corporate Services	6.609	5.626	(0.983)	(14.9)
Planning	4.727	3.465	(1.262)	(26.7)
Operational Net Cost	19.348	16.743	(2.605)	(13.5)
City Deal and Drainage Levy	1.119	1.078	(0.041)	(3.7)
Investment Income & Expenditure	(1.702)	(1.506)	0.196	11.5
Appropriation to/(from) Earmarked Reserves	(0.443)	2.852	3.295	743.8
Accounting reversals and MRP	(1.313)	(1.617)	(0.304)	(23.2)
Non Operational Budgets	(2.339)	0.807	3.146	134.5
Total	17.009	17.550	0.541	3.1

7. The Operational Net Cost of the Council relates to the day to day spending/service areas of the Council. The outturn for Net Operational Cost is £16.743 million representing an underspend of £2.605 million; this is offset by an overspend of £3.146 million in relation to Non Operational Budgets. The net position being an overspend of £0.541 million. Much of the underspend in operational areas is related to a compensating increase in appropriation to reserves as funding for those projects was intended to come from this source, although some of the transfer to reserves relates to Business Rates income which features in the table at paragraph 10.
8. The key variances in operational areas are detailed below with some commentary on each area:

Directorate	£m	Reason for Variance
Housing	(0.244)	A further allocation of Flexible Homelessness Grant was received during the year. This has been transferred to the Earmarked reserve to aid Homelessness prevention activities for spending over the next 3 years. There were also savings on the Private Sector Leasing Scheme support.
Health and Environmental Services	(0.116)	The variance is made up of a number of under and overspends, with largest savings realised in Health and Wellbeing due to staff savings and additional income. A credit of £40,000 also contributed to savings in Awarded Watercourses.
Corporate Services	(0.983)	Corporate services are underspent in most areas, most notably an underspend of £489,000 on Renewable Energy projects which will now be implemented in 2019/2020. Funding for these projects was planned as a withdrawal from Earmarked reserves. Other notable underspends are in Revenues and Benefits due to staff vacancies and in Democratic services £106,000 were saved on members allowances/travel and subsistence.
Planning Shared Service	(1.262)	The original budget was prepared on a South Cambs only basis, however, the shared service was created during that year and as a result both expenditure and income were substantially different; resulting in an overall under-spent of £1.262 million. Income was up by £2.008 million and expenditure up by £0.746 million. Part of the 2018/2019 savings are also attributable to compensation and appeal costs which are being requested to be rolled over into the financial year 2019/2020.
Overheads	0.642	There were two main areas of overspend relating firstly to ICT of £308,000 and Planning Administration of £542,000. The latter again related to the formation of the shared planning service. There were a number of offsetting underspends including Environmental support (£63,000) and the Contact Centre (£45,000). These services are allocated to both General Fund and Housing Revenue Account services and form part of the costs reported in each operational area above.
Non Operational Budgets	3.146	This most significant part of this overspend is in reality additional contributions to Earmarked Reserves because of the underspends experienced within the operational areas. There is, however, also an additional contribution to reserves from business rate income received from renewable energy schemes. The income appears as part of the next table.

9. It is usual practice to submit any requests for rollover to 2019/2020 as part of this report and the rollovers are listed with some commentary at **Appendix A**.
10. In addition to operation and non operational income and expenditure above the following table shows the outcome for Council Tax, Business Rates and the various other non-ring-fenced grants received from Central Government:

	Current Net Budget £ million	Outturn £ million	Variance £ million	%
Total Expenditure (from above)	17.009	17.550	0.541	0
Government Grants	(2.923)	(5.752)	(2.829)	(96.8)
Council Tax	(8.616)	(8.616)	0	0
Business Rates	(5.470)	(5.942)	(0.472)	(8.6)
Collection Fund Surplus	0	(3.218)	(3.218)	0
Income from Taxation and Government Grants	(17.009)	(23.528)	(6.519)	(38.3)
Appropriation (to)/from General Fund.	0	(5.978)	(5.978)	

11. The Outturn position set out in the table above reflects the following:
- That due to the constant changes to business rate reliefs since the introduction of 50% local retention, the government is required to compensate local authorities for the loss of revenue as a result. In 2018/2019 this was £2.829 million more than expected.
 - That growth in business rates income in the district has been substantial since the setting of the baseline and, although 50% of that growth has to be paid over to central government (amounting to £2.438 million), there was still additional income of £0.472 million.
 - The surplus on the business rates collection fund (3.119 million) and Council Tax Collection fund (£0.99 million). It is normal practice to make provision for this surplus or deficit in setting the revenue budget but, for no known reason, there was no allowance made in the 2018/2019 budget. The same situation has also been repeated in the 2019/2020 budget which will again lead to a more favourable outturn than the approved budget indicates.
12. It is worth noting at this point the complexities of forecasting income in a growth area, particularly for Business Rates. Rather than taking account of the income due in the current year and applying a percentage uplift, there are many factors that need to be accounted for during the estimate process. The evaluation, or "rating", of non-domestic premises is conducted by the Valuation Office Agency (VOA), a process which can take many months following completion of a build. There is a requirement to predict the likely impacts on income of properties being built or demolished, along with reductions in business rates due to appeals which may or may not come to fruition during the financial year. Whilst every endeavour is made to make informed predictions, it is important to accept that there is limited influence over such events, which tend to be driven by economic and market factors; these may arise after estimates have been prepared.

13. It should also be noted that legal challenges on VOA decisions, such as the high profile cases around the rating of ATMs or by NHS trusts who are seeking 80% charitable relief, both of which are yet to be decided, also have the potential to significantly impact estimates. Whilst a provision is made within accounts for such eventualities, there remains a degree of uncertainty and the approach reflects a level of prudence on this basis.
14. The budget assumed no change in the General Fund Balance however as a result of the additional income particularly from Business Rates, £5.978 million has been added to the General Fund Balance.
15. The option of allocating the surplus for an alternative earmarked purpose exists. For example, the establishment of a Property Investment Reserve could enable Council priorities in relation to housing, economic growth and income generation to be advanced further (e.g. land acquisition, asset refurbishment or additions to the property portfolio without reliance on capital funding). It is important that the revenue implications of any investment decision is carefully and fully taken into account.

Reserves

16. There are a substantial number of General Fund revenue reserves in existence and the balance on these as at 31 March 2019 was a little over £24 million. There is a need to review these reserves as to their level and appropriateness and to ensure they are aligned to Council priorities. It is intended to carry out a thorough review of these Reserves as part of the 2020/2021 budget process with a view to rationalising them as appropriate.
17. The major Revenue Reserves held by the Council are detailed below with some commentary on each:

New Homes Bonus (NHB) GCP Reserve – £3.131 million: This reserve was set up to receive a proportion of the NHB monies the authority receives from the Government; 30% is currently set aside each year for costs of the Greater Cambridge Partnership. It is likely that, in the longer term, more will be paid out of the Reserve than received as it is expected that the NHB will either be reduced significantly or phased out completely. The position will need to be reviewed given the impact of any changes to NHB on the existing commitment. During 2018/2019 a contribution of £886,000 was paid towards the Partnership with the contribution inwards being £922,000.

New Homes Bonus A14 upgrade Reserve – £3.318 million: The A14 contribution of £5 million is expected to eventually come from this reserve, collected from the remainder of the NHB funds after the allocation to GCP and General Fund. No funds were allocated to this Reserve for 2018/2019.

Renewables Reserve – £3.425 million: This was set up at the end of 2015/2016 in order to fund an investment programme to build new sources of renewable energy. The funds are built up from amounts retained in respect of Renewable Energy Schemes as per National Non Domestic Rates (NNDR) 3 returns. In 2018/2019, £834,462 was received from Renewable Energy sources, 100% of which is retained locally in order to be reinvested back in Renewable Energy projects. In 2018/2019, £75,172 of the funds were utilised, including funding the installation of the solar panels on the Waterbeach Depot. It is proposed to use some of the balance of funds going forward at South Cambridgeshire Hall to improve energy efficiency and implement green energy schemes.

Business Rates Growth Reserve – £6.230 million: This relates to retained funds from the 100% Business Rates pilot. At the time the funds were made available, it was not clear if there were any restrictions on expenditure funded by this pilot, therefore, funds were put in a reserve pending further clarification from the Government. It is proposed that funds from this reserve are used to top up the A14 Upgrade Reserve at the time payment will fall due.

Business Efficiency Reserve – £1.026 million: Set aside to meet costs associated with council actions, implementation of business improvement and efficiency programmes and commercialisation programme projects and the Shared Services programme. It is proposed to re-designate this reserve as a Transformation Reserve. The Council is embarking on a programme of transformation and there will inevitably be transitional costs arising from the review of business processes, the investment required to achieve the change required and the costs associated with reviewing the level of resource across the Council. There will, therefore, be a need for one-off expenditure to realise on-going savings and it is proposed, at this stage, to set aside a further £3 million from the 2018/2019 outturn surplus to this Reserve for costs associated with the transformation programme over the next few years.

General Fund Capital Programme 2018/2019 – Outturn

18. The outturn in relation to the 2018/2019 Capital Programme identifies an expenditure underspend of £7.316 million and equivalent financing underspend. The budget for comparison purposes is the revised budget that was reported to Council on 21 February 2019 as part of the 2019/2020 budget papers:

	Revised Budget £ million	Outturn £ million	Variance £ million	C/F
Housing Services	2.212	1.063	(1.149)	0.030
Health & Environmental Services	0.921	1.050	0.129	0.052
Corporate Services	0.839	0.604	(0.235)	0.330
Planning Services	0.080	0.071	(0.009)	0
Advances to Housing Company	28.054	23.147	(4.907)	4.907
CLIC Investment	2.400	1.255	(1.145)	1.145
Expenditure	34.506	27.190	(7.316)	6.464
Capital Receipts	1.702	1.773	0.071	
Revenue (Inc. Reserves & HRA)	0.690	0.299	(0.391)	
Contributions (Inc. Section 106)	0.814	0.716	(0.098)	
Borrowing (Internal & External)	31.300	24.402	(6.898)	
Funding	34.506	27.190	(7.316)	

19. Expenditure on Housing includes the re-purchase of General Fund sheltered Properties and Private Sector Housing Grants including Disabled Facilities Grants (DFG's). With regard to the former, an allocation is put in each year as it is unknown how many will occur. There were not as many as expected leading to an underspend and the allocation in for 2019/2020 is felt to be adequate so there is no need to carry forward any monies. The latter was overspent by £50,000 relating to DFG's and home assistance grants, but the Council received additional funding of £80,000 at the end of 2018/2019 so in reality a carry forward of £30,000 is appropriate.

20. The Health and Environmental Services budget is provided in the main for vehicle replacements for the waste and street cleansing fleet. This was overspent when compared to the revised budget mainly due to additional vehicle purchases. There was also an order placed during February 2019 for additional tail lift vehicles but not delivered until April 2019. The cost of £52,000 needs to be carried forward into 2019/2020 but in any event is funded from Earmarked Reserves.
21. The Corporate Support Services budget includes ICT projects and Capital works at the Camborne offices. Overall budgets were underspent by £235,000. The underspend on the Camborne offices was £330,000, with an overspend on ICT projects. It is proposed to carry forward the underspend for the office refurbishment to enable the projects in the programme to be completed.
22. It was expected that £28,054 million would be advanced to Ermine Street Housing Ltd, the Council's wholly owned subsidiary. In the event £23,147 million was actually advanced as the number of properties acquired in the second half of 2018/2019 was lower than expected. These loan advances count as Capital Expenditure as they are for a specific purpose and, as such, the unspent allocation should be carried forward into 2019/2020.
23. The Council has been providing loan finance for the creation of an Ice Rink in the sum of £2.4 million. It was expected that the rink would be complete during 2018/2019 but, in the event, it did not complete until the summer of 2019. The outstanding amount of £1.145 million needs to be carried forward into 2019/2020 to enable the commitment to the project to be met.
24. A summary of the service related rollovers, totalling £412,000, is identified at **Appendix B**.
25. Use of Capital Receipts to fund the programme was slightly higher than expectations due to additional spend in Health and Environmental Services. Funding for DFG's from the Better Care Fund exceeded expenditure but this funding can be applied during 2019/2020 and there is an expectation that expenditure will rise as demand appears to be increasing. The expected call on reserves was less than anticipated and due to the under-spend this was fairly modest. All borrowing in the year was from internal sources and, due to slippage, was significantly lower than expected.

IMPLICATIONS

26. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

27. It is a legal requirement for a Local Authority to set a balanced budget (which can include the use of past surpluses). This report is measuring the actual position against the budget set in February 2018 for 2018/2019.

Policy

28. It is Council Policy and indeed good practice to report on the year end outturn against the budget.

Finance

29. The 2018/2019 General Fund Revenue budget was approved by Council during February 2018. The latest capital budget was approved during February 2019. This report compares the actual outturn for General Fund revenue and capital to the appropriate most recently agreed budgets.

Risk

30. Measuring actuals against budgets is essential for good financial management. A failure to do so carries the risk of not knowing the true financial position.

Environmental

31. There are no environmental implications arising directly from the report.

Equality Analysis

32. In preparing this report, due consideration has been given to the District Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010. A relevance test for equality has determined that the activity has no relevance to South Cambridgeshire District Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed.

Effect on Council Priority Areas

33. Timely and robust consideration of the Council's outturn is vital to ensure that the financial position of the Council is effectively managed and monitored.

BACKGROUND PAPERS

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the Public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) In the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- General Fund Medium Term Financial Strategy – Report to Cabinet: 7 November 2018
- Budget Report – Report to Cabinet: 6 February 2019
- Business Plan 2019 - 2024 – Report to Council: 21 February 2019
- Medium Term Financial Strategy and General Fund Budget – Report to Council: 21 February 2019
- An Organisation for a Sustainable Future – Report to Cabinet: 1 May 2019

APPENDICES

- A 2018/2019 General Fund Revenue Rollovers
- B 2018/2019 General Fund Capital Rollovers

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