Report title	**Provisional Outturn Report 2023/24**
Report author	Amanda Fahey, Assistant Chief Executive & s151 officer
Department	Corporate Leadership Team
Exempt?	No

Purpose of report:

- **To resolve**

Synopsis of report:

This report provides an overview of the financial position of the Council for the year ending 31 March 2024.

Recommendations:

The Corporate Management Committee is recommended to:

i) Note the provisional financial outturn for 2023/24, and
ii) Approve the proposed transfers to and from reserves as set out in the General Fund Summary (Appendix 1)

1. Context and background of report

1.1 This report sets out the provisional outturn position for the Council's finances for the year 2023/24, covering Revenue and Capital expenditure and income, and the level of reserves.

1.2 The purpose of the report is to provide an overview of the financial position, with an explanation of the main reasons for differences between actual expenditure and income for the year and the Council's original spending plans, in order to understand the financial performance of the Council during the year.

1.3 This financial performance should be considered in light of the wider economic context and environment in which the Council is operating.

1.4 The outturn should not be considered in isolation as the performance in-year will have an effect on future financial planning. For example, it will affect the level of reserves available to be called upon over the medium term, may highlight areas for action in terms of large budget variances or the necessity to carry forward work to the following year where it was not possible to be delivered within planned timescales.

1.5 It should be noted that the financial information contained in this report is provisional, as at the time of writing this report, the draft (pre-audited) Statement of Accounts is yet to be published. The deadline for publishing the unaudited accounts for public inspection was 31st May but has not been achieved principally due to lack of resources and the delayed receipt of key financial information such as valuations. However, the remaining outstanding items to be finalised before publication should not materially affect the figures reported here.

1.6 Members will be aware that the audit of the Council's Statement of Accounts is currently outstanding for the years 2019/20 through to 2022/23 and measures to tackle the backlog are in train, including the addition of statutory backstop dates for the completion of prior year audits, subject to regulations being laid before Parliament. Should the audit of the accounts for any of the outstanding years or the eventual audit of the 2023/24 accounts raise any issues, subsequent changes may need to be made to the figures report here.

2. Report and, where applicable, options considered and recommended

2.1 The provisional General Fund Summary is set out at Appendix 1.

2.2 The Summary shows the costs of the day-to-day running of Council services, split between net expenditure on service provision in the top section of the table, followed by various accounting adjustments, transfers to and from reserves, income from the Council's commercial property portfolio and from investing surplus cash, alongside the cost of any borrowing, with income from Council Tax, Business Rates and central government grants appearing at the end of the table. The balance of this expenditure and income results in either a contribution to the Council's General Fund working balance (where income exceeds expenditure) or a reduction in the balance, where funding is required to meet a gap due to expenditure exceeding income.

2.3 The original budget for 2023/24 anticipated the need to use around £3.93m of balances to support the revenue budget, which was subsequently revised downwards to show an expected drawdown from balances of around £1.35m, as budgets were monitored during the year. By the close of 2023/24, further significant in-year underspends have resulted in surplus funds of just over £3.82m being available to be set aside to support future pressures and to increase the level of contingency available to mitigate risk.

2.4 The table below provides a high-level summary of the variances on the General Fund between the anticipated outturn position (2023/24 Actual) and the Revised budget before any amendments proposed in this report.

Summary of major variances against the Revised budget for 2023/24		**£000s**
Anticipated use of General Fund Working Balance		**1,346**
Less:		
	Variations in service budgets (see Appendix 2)	(5,601)
	A reduction in the required provision for credit loss (bad debt provision) resulting in a transfer back to the general fund instead of the previously expected contribution to the provision	(2,165)
	Net increase in investment property income	(323)
	Net effect of other minor variances	(2)
Plus:		
	Reduced income from investment of surplus cash	2,212

	Changes to amounts anticipated to be spent from or transferred to various reserves such as car park reserve, equipment replacement reserve and planned underspends	710
Provisional outturn – contribution to Working Balance		**(3,823)**

2.5 A table of the key variances at service level, between budgeted and actual revenue outturn, is included in Appendix 2 of this report. This figure includes planned underspends, which are transferred to a reserve for future draw down. A planned underspend is where a particular activity or project has been unable to be delivered in the year in which it was budgeted but it is still necessary to deliver that activity and so the budget is carried forward to the following year via use of the reserve.

2.6 Variances of note in the table at 2.4 are:

- the reduction in the provision for credit losses, which meant that instead of topping up that reserve by some £1.385m, the provision was instead reduced by £0.78m, resulting in a swing of £2.165m between the revised and the provisional outturn figures. This is largely due to a lower bad debt provision being required specifically for commercial property, where the anticipated level of additional bad debts did not materialise.

- net increase in Investment Property income of £0.32m due to reclassification of income from Corporate Property and surplus on commercial car park income versus anticipated deficit, offset in part by additional services-related and void costs.

- the reduction in investment income of £2.2m is due to in part the revised estimate assuming a higher level of interest rates over the last 6 months of the year than actually materialised. In addition, due to higher than anticipated borrowing rates, officers decided not to take out replacement borrowing for various maturities, instead choosing to run down investment balances to generate a net betterment for the Council. It should be noted that this is only a temporary measure until such time that current high borrowing rates return to levels in line with medium-term market predictions.

- various changes to earmarked reserves including a contribution to the car park reserve rather than the expected drawdown from this reserve; the setting up of new earmarked reserves to hold the outstanding audit fees for the as yet unaudited years from 2019/20 onwards and to set aside funding for the review of the Council’s Local Plan (rather than holding in the planned underspend reserve); and changes to the amount set aside for equipment repair and replacement.

2.7 A £4.3m increase in net returns for the operation of the Business Rate Retention Scheme has been offset by a transfer to the Business Rates Equalisation Reserve which has previously been set aside to manage major fluctuations in business rates income due to timing differences between receipt and payment of funds which has increased in complexity due to the addition of various rate reliefs which are reimbursed via government grants. The final outturn from business rates can vary significantly over time as businesses become eligible for mandatory or discretionary reliefs and as the tax base alters as businesses open and close. It is therefore appropriate to hold sufficient funds in reserve to allow for the subsequent reconciliation of this significant funding streams, which may require the repayment of funds to Government or other preceptors.

2.8 One of the largest variances within the costs of service provision, is the additional vacancy savings achieved against the Council's salary budget, amounting to approximately £1.68m. The Council has continued to underspend against its staffing budgets for a number of years now, leading to a full establishment review being undertaken during 2024/25. The 2024/25 budget report removed £1m from the salary budget to reflect this on-going underspend and officers have been undertaking an exercise in recent months to understand the root causes of this major variance. This work will enable the Council to better align its HR establishment list with the budget, which will improve controls and avoid its financial forecasting from being over-inflated with staffing costs that never materialise. Work to date has shown that the variances arise due to several factors such as:

- Establishment list and budget retaining full time equivalents posts where the incumbent is working fewer hours leading to budgeted hours that are not being utilised

- Long-term vacancies that are either extremely hard to fill or are not currently required to carry out service provision

- Higher level of turnover than currently captured within the vacancy rates applied to the budget (i.e., a reduction in budgets is estimated due to the assumption that there will always be some vacancies within the organisation. If the number or length of time of these vacancies is greater than the assumptions used, then this creates an additional underspend).

2.9 Once this work has been completed, it is anticipated that the realignment of budgets and the establishment list will mean there is a much lower variance on staffing costs in future years. This workstream forms part of the Council's Savings, Efficiencies and Income Generation process which is intended to contribute to addressing the future financial sustainability of the Council and is an inter-dependent workstream of the Council's non-statutory Best Value Notice (NS BVN) response programme.

2.10 It should also be noted that some £828,000 of growth bids, provisionally approved in 2023/24, were yet to be drawn down at the end of the year. While this creates an underspend in 2023/24, this activity will require funding in 2024/25 as approvals to release these growth bids are taken forward. For example, the Assets and Regeneration team brought forward requests to May 2024 Corporate Management Committee for the release of provisions of £250,000 and £150,000 respectively for various feasibility studies to support key asset management projects.

2.11 The Council has a range of options open to it, in considering how best to utilise the one-off saving provided by the underspend against the 2023/24 budget.

<u>Option 1: Increase to General Fund Working Balance</u>

2.12 The Council could simply allow the underspend to flow through to the General Fund Balance providing a greater level of contingency to support the mitigation of risk and any unexpected demand pressures in future years. This is the position shown in the "Actuals" column of Appendix 1 with the anticipated level of balances rising from £18.94m to £24.11m at the close of 2023/24.

2.13 The following table below shows the effect of this option on working balances over the medium term, assuming no other changes to the estimates in the medium-term financial forecast contained in the budget report approved by Full Council in February 2024, other than the effect of growth provisions being released as set out in paragraph 2.10.

General Fund Working Balance							
	Revised	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Working Balance at start of year	(20,284)	(20,284)	(24,107)	(23,930)	(22,409)	(17,260)	(10,055)
Use of working balance	1,346	(3,823)	177	1,522	5,148	7,205	9,321
Working balance at end of year	**(18,938)**	**(24,107)**	**(23,930)**	**(22,409)**	**(17,260)**	**(10,055)**	**(734)**
Over / (Under) £5m minimum threshold	**13,938**	**19,107**	**18,930**	**17,409**	**12,260**	**5,055**	**(4,266)**

2.14 The original forecast saw balances reducing to around £13m by the end of the normal forecast period (2026/27); some £8m above the minimum threshold which is set at £5m. Extending the forecast over a further two years showed balances falling to around minimum level by 2027/28 and being utilised completely during 2028/29 (if no corrective action was taken). If the underspend from 2023/24 is allowed to flow through to balances, then balances will fall to the minimum level during 2028/29 with the complete depletion of reserves being pushed back to the start of 2029/30.This improves the Council's position by building up reserves in the short term and providing additional time for net budget savings to be delivered to reduce the underlying budget gap.

<u>Option 2: Bolster earmarked reserves alongside a lower increase to the working balance (Recommended option)</u>

2.15 At year-end it is prudent to review not only the level of working balances but also the level of funds held in all earmarked reserves and to consider whether they remain sufficient to cover the key risks known to the authority. Reserves and provisions such as the bad debt provision have been assessed as part of the financial closedown procedures but there are some notable reserves that bear consideration by Members in this report. These are:

- Service Transformation Reserve
- Investment Property Income Equalisation Reserve
- Property Repairs and Renewals Reserve
- Provision for the repayment of borrowing

2.16 **Service Transformation Reserve :** During 2023/24, the Council set aside £1m to be ring-fenced to pump-prime invest-to-save initiatives, making it easier to monitor and report on the spend over time, alongside the benefits achieved. It was agreed that the reserve would support set up costs or short-term resources required to support savings initiatives, such as consultancy costs, ICT equipment, vehicle purchase etc. but not on-going costs. Subsequently CMC agreed to ring-fence £125,000 of the Service Transformation Reserve to support work required as part of the Council's response to receipt of a non-statutory Best Value Notice in December 2023. Limited use of the Service Transformation Reserve has been made at this point in time, as savings initiatives continue to be developed. In total, including the NS BVN budget, £195,000 had been committed from the Reserve by the end of 2023/24. **It is therefore not proposed to top up this fund at this point.**

2.17 **Investment Property Income Equalisation Reserve:** One of the recommendations in Cipfa's Capital Assurance Review, which follows through to the recommendations under the NS-BVN, is for the Council to review its modelling of the sinking funds it uses to support its commercial property income, ensuring it is holding sufficient funds to mitigate against key risks to this potentially volatile income source (e.g. through loss of tenants, reduction in rental income, provision of tenant incentives such as rent-free periods, the costs of holding properties when vacant etc). The Council is currently engaging with both DLUHC and the LGA to support the development of this modelling. **In the meantime it is proposed to transfer an additional £1m to this reserve which can be reviewed subsequently in light of the improved modelling.**

2.18 **Property Repairs and Renewals Reserves:** This reserve supports both the Council's commercial investment properties, ensuring they are maintained in a lettable condition, but also its operational properties ensuring they are fit to deliver services. The Council is currently undertaking a suite of condition surveys of its property assets and it would be prudent to ensure additional funds are set aside to meet any unforeseen costs of that work. In addition, the Council is currently considering works to its Depot, from where its waste, recycling and grounds maintenance operations are delivered, and it would again be prudent to ensure sums are set aside for any potential increase in these costs as the project develops. (Any increase to the project costs would be reported through the appropriate channels, seeking Committee approval for additional spend in line with financial regulations). **It is therefore proposed to top up this reserve by an additional £1m.**

2.19 **Provision for the repayment of borrowing:** The Council sets aside an annual provision for the repayment of its borrowing, known as minimum revenue provision (MRP). The amounts set aside are governed by the Council's MRP policy which follows government guidance and is set out in the Treasury Management Strategy approved by Full Council in February 2024. The Council currently uses an annuity method for calculating its annual MRP requirement, which means that lower provisions are set aside in the earlier years, rising by 4% each year. This means that the provision increases year on year (if borrowing levels remain the same) with the expectation that commercial investment income also rises, negating any pressure on the general fund.

2.20 The Cipfa capital assurance review recommended that the Council review the level of provision it makes, to mitigate the risk of commercial income not keeping pace with the growth in the provision. It is currently unaffordable for the Council to move to a "straight-line" basis for its MRP i.e. to charge the same amount each year, as this would see a significant uplift in costs to the General Fund Revenue Account in the short to medium term (although reducing future costs to the organisation). However, the Council could choose to make additional voluntary payments (Voluntary Revenue Provision, VRP) in order to set aside a greater amount towards the repayment of its debt. (Voluntary overpayments may be recovered in future years budget setting if needed.) **It is recommended that the Council set aside an additional £1m in VRP from the underspend produced in 2023/24**. This will support the Council's commitment to respond to Cipfa and DHLUC's recommendations and demonstrate its prudent approach to debt management, whilst being affordable and not impacting on service provision. Any measures to increase the level of MRP or VRP being set aside will reduce the Council's overall Capital Financing Requirement.

2.21 The combination of the above three measures will mean that a proportion of the one-off additional resource provided by the 2023/24 underspend will be used to provide additional risk mitigation for the Council and improve its financial sustainability. All three measures are consistent with the recommendations set out in the Cipfa capital assurance review and the NS-BVN and demonstrate the Council's willingness to engage in and respond to this process. The column headed "Proposal" in Appendix 1 includes these adjustments which are shaded grey for ease of reference.

2.22 The outcome on working balances of transferring £3m of the underspend to these reserves and provisions is that a contribution of just under £823,000 will be made to the General Fund Working balance rather than a drawdown of £1,35m as anticipated in the revised budget. The closing level of reserves would then be £21.1m compared to the £18.9m expected previously. The change to working balance over the medium term is demonstrated in the following table which shows the working balance still being above minimum threshold in 2027/28 before falling below the threshold in 2028/29 and being depleted in its entirety during 2029/30. As with all scenarios presented in this report, these figures are presented before the inclusion of net savings to be produced from the Savings. Efficiencies and Income Generation Programme or the Service Review Programme.

General Fund Working Balance							
	Revised	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	2023/24	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Working Balance at start of year	(20,284)	(20,284)	(21,107)	(20,930)	(19,409)	(14,260)	(7,055)
Use of working balance	1,346	(823)	177	1,522	5,148	7,205	9,321
Working balance at end of year	**(18,938)**	**(21,107)**	**(20,930)**	**(19,409)**	**(14,260)**	**(7,055)**	**2,266**
Over / (Under) £5m minimum threshold	**13,938**	**16,107**	**15,930**	**14,409**	**9,260**	**2,055**	**(7,266)**

3 Housing Revenue Account

3.1 The Council also maintains a Housing Revenue Account (HRA), a ring-fenced account which contains all income an expenditure relating to the management of a stock of around 2,900 dwellings. Appendix 3 of this report sets out the variances in income and expenditure against budget and the movement in HRA balances during the year.

3.2 The HRA produced a provisional surplus for the year of £3.6m, compared to the probable surplus of £0.9m reported earlier in the year, largely due to a reduction in contribution to the Major Repairs Reserve due to delay in repairs spend.

3.3 Once the funding of capital has been accounted for, the overall balances of the HRA increased by £1.8m from this time last year, mainly due to the in-year surplus. generated.

4 Capital Outturn

4.1 The Council's Capital Programme includes all expenditure on the purchase or creation of assets with an economic life of more than one year, or on enhancements to existing assets. Capital spending is funded by the sale of assets, by capital grants and donations, contributions from developers, use of earmarked reserves or via contributions from the Council's Revenue Account.

4.2 Where there is a gap in funding the Council may borrow to support capital spending; this can be through the use of internal borrowing (using cash reserves until they are needed elsewhere) or thorough external borrowing (in the private sector or via the Public Works Loan Board). More detail on the Council's borrowing position is contained in the Treasury Management Outturn Report which was reported to this Committee in June 2024. Following engagement with DLUHC and the passing of the

Levelling and Regeneration Act 2023 which contains measures designed to identify capital risk, the Council has been looking at ways to curtail any future borrowing and where possible to reduce its overall level of debt. Given the lack of capital resources held by the Council, and its commitment to use any receipts from the sale of debt-funded assets to repay borrowing, the Council is severely constrained in its ability to raise capital funding in the future, making it increasingly reliant on external funding such as grants and contributions, or on revenue contributions, The need to make savings in the Revenue Account however also reduces its ability to make substantial contributions to fund capital works.

4.3 Appendix 4 of this report sets out the Capital spending for the year 2023/24 with commentary on key variances. In total the Council has expended £16.6m in capital resources during the year against a budget of £26.5m. The timing of capital spending, particularly for large projects, is difficult to predict with accuracy and often leads to significant expenditure being slipped to the following year. This is particularly the case where a project is expected to span a number of years as it is not always possible to accurately predict the level of costs that will fall into each period.

4.4 Several of the schemes showing in the Appendix as not yet started were not progressed due to committee reports for their release being presented at the tail end of the year leaving little time for projects to be mobilised. Other variances have occurred due to complex procurement requirements or delays in commencement of projects..

4.5 The following table provides a summary of the Capital Programme for 2023/24 and how it has been funded.

Capital Financing Summary 2023/24

	Gross Expend	Grants & Contributions	Capital Receipts	GF Revenue Reserves	Earmarked Reserves	HRA Revenue Reserves	Major Repairs Reserve
	£	£	£	£	£	£	£
Housing Services			-				
Improvement works to housing stock	6,104,238		-				6,104,238
HRA Property purchases	2,984,737	2,180,126	-			804,611	
Housing computer system enhancements	87,051		-			87,051	
Improvement grants (private sector properties)	769,187	769,187	-				
			-				
Environmental & Sustainability			-				
Grounds maintenance vehicles	104,879		104,879				
Contribution to A320 scheme	2,000,000		2,000,000				
Installation of electric vehcile chargers	10,866		10,866				
			-				
Community Services			-				
CCTV Equipment replacement	107,193		-		107,193		
Grants to local organisations	1,500		1,500				
Replacement play area programme	160,000	160,000	-				
Park tennis court improvements	227,311	179,037	-	48,274			
Chertsey Museum lift replacement	43,308		43,308				
			-				
Runnymede Regeneration Programme			-				
Addlestone ONE regeneration scheme	312,994		312,994				
Magna Square regeneration scheme	1,341,703		1,341,703				
Addlestone One refubishment	2,104,528		2,104,528				
Other Schemes			-				
R&D Grants supporting local business	10,000	10,000	-				
Investment in computer technology	105,964		8,399		97,565		
Replacement HR/Payroll system	139,847		139,847				
	16,615,304	3,298,349	6,068,023	48,274	204,758	891,662	6,104,238

5 Policy Framework

5.1 The provisional outturn report forms part of the budgetary review framework of the Council and its financial and performance management processes. The report will inform the production of the Council's Medium-Term Financial Strategy.

6 Resource Implications

6.1 The report outlines the Council' financial position at the close of 2023/24 and how it used its resources during the year.

6.2 In terms of its net Revenue expenditure, the Council has once again significantly underspent against its budget. As noted in section 2 of the report, a large part of this underspend is due to a mismatch between staffing budgets and actual staffing costs largely due to the level of turnover and length of vacancies within the organisation. Measures are being taken to realign the budget moving forward to avoid this scale of underspend persisting in further years and so that budgets are more closely aligned to actual use of resources. High vacancy rates may also cause delays in projects and to the delivery of service area business plans, impacting the spending plans of the Council.

6.3 The underspend provides an opportunity to make additional contributions to earmarked reserves and the working balance, which is welcome. The Council should not be complacent however as to the scale of the financial challenge it is facing, with a projected budget gap of £5.2m over the medium term. The reserves and contingency can be used to support short-term increases in costs or reductions of income but cannot be used to meet an on-going budget gap. This will require structural changes to the budget in order to make permanent reductions in cost or to increase income streams. Stronger balances will provide a buffer that will allow time for the Council's Savings, Efficiencies and Income Generation Programme to deliver the necessary benefits to close the underlying budget gap.

6.4 The HRA has again delivered a surplus largely due to slippage in its repairs programme and continues to face pressures form the need to ensure stock meets Decent Homes standards, plans for Social Housing Decarbonisation, and repair and replacement of aging stock alongside ambitions to increase stock. It remains critical for the HRA to maximise use of external funding, partnership working and government grants in order to adequately resource its future plans.

6.5 The Capital Programme ran below budget in 2023/24 and will be constrained in the future by the lack of available capital receipts, restraint on borrowing and the lack of headroom in the Revenue account to support direct capital contributions.

7 Legal Implications

7.1 S28 Local Government Act 2003 requires authorities to monitor their income and expenditure against their budget and be ready to take action if overspending or shortfalls in income emerge. The provisional outturn report is a summarised version of the information produced for the Statement of Accounts which is governed by the Accounts and Audit Regulations 2015 as amended.

8 Equality Implications

8.1 There are no specific equality implications arising out of this report, other than an acknowledgement of the importance of equality matters and how they are addressed when service provision is changed, new services are introduced, or new capital schemes are assessed.

9 Environmental/Sustainability/Biodiversity Implications

9.1 Again, while there are no specific environmental, sustainability or biodiversity implications arising out of this report, the delivery of sustainable outcomes lies at the core of the Council's vision and its Corporate Business Plan, which includes its Climate Change Strategy.

10 Risk Implications

10.1 Financial risk is mitigated through the robust oversight and monitoring of budgets, the development of a sound financial strategy, and the effective, efficient and economic use of resources. Financial risks are captured in the Council's risk management system and understandably feature strongly in the Corporate Risk Register. The Council's risk appetite for financial risk is cautious.

11 Other Implications

11.1 Not applicable.

12 Timetable for Implementation

12.1 The majority of this report is for noting. If the recommendations regarding the transfers to reserves are approved these can be actioned immediately and will be reflected in the Statement of Accounts for 2023/24 when published later in the year.

13 Conclusions

13.1 The underspend in all areas of the Council's budget is welcome news in that it provides an additional buffer against the scarcity of resources. The Council recognises the financial risks it faces, has a financial strategy in place to mitigate these risks and will further refine its plans in the next iteration of the Medium-Term Financial Strategy.

13.2 The transfers to reserves recommended in the report will help support key area of risk and are fully aligned with the Council's NS-BVN response programme. If the final outturn position varies to that presented here, it is proposed to retain the transfers to reserves and provisions as set out in the report and to adjust the contribution to working balances to compensate for the change.

14 Background papers

14.1 None

15 Appendices

- Appendix 1 – General Fund Summary – Revenue Account
- Appendix 2 – Variations in Service Budgets – Revenue Account
- Appendix 3 – HRA Balances and Budget Variances
- Appendix 4 – Capital Outturn 2023/24