

Provisional Outturn Report 2021/22 (Amanda Fahey – Assistant Chief Executive)

Synopsis of report:

This report provides an overview of the financial position of the Council for the year ending 31 March 2022.

Recommendations:

The Corporate Management Committee is recommended to:

- i) Note the provisional financial outturn for 2021/22,
- ii) Approve the creation of a new Earmarked Reserve to hold surpluses generated by Parking Services which are ring-fenced for future reinvestment in the service, and
- iii) Approve the transfers to and from Reserves as set out in the General Fund Summary

1. Context of report

- 1.1 This report sets out the provisional outturn position for the Council's finances for the year 2021/22, covering Revenue and Capital expenditure and income, and level of reserves.
- 1.2 The purpose of the report is to provide an overview of the financial position and explanation of the main reasons for differences between the 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 was 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 this report is provisional, as the Council has not yet completed its draft Statement of Accounts for 2021/22. This is due to a number of factors including staff vacancies in the Finance team, partly due to the retirement of a number of long-serving staff; additional complexity in the Accounts not least from the myriad of Government grants that the Council now administers, which all need to be reconciled at the year-end; and from the continued delays in the audit of prior year Accounts. These delays cause additional pressures to the team when closing the accounts for the year, as they continue to respond to questions from auditors relating to earlier years. Should the audit of the accounts for either of the outstanding years (2019/20, 2020/21) or the eventual audit of the 2021/22 Accounts raise any issues, subsequent changes may need to be made to these figures.

1.6 A further area of complexity is the Business Rates Retention Scheme where the final position for any year is dependent on cash flows that happen over a two-year period, due to the interaction of government grants, and payments based on estimates and subsequent reconciliations. The final element being the outcome of Business Rates Pooling arrangements, where the Council pools its business rates growth with a group of other local authorities, in order to benefit from a greater, locally retained share. This scheme takes considerable time to finalise and while estimated figures are included in the outturn report, they are subject to change.

2. Revenue Outturn

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 investing surplus cash alongside the cost of any borrowing, and income from Council Tax, Business Rates and central government grants. The balance of this expenditure and income results in either a contribution to the Council's General Fund 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 2021/22 anticipated the need to use around £3m of balances to support the revenue budget, which was subsequently revised down to around £1.1m as budgets were monitored during the year. The outturn position shows a further favourable movement against this use of reserves, as the significant in-year underspend now means that some £2.7m can be put aside to support future pressures.

2.4 This contribution will take the General Fund balance to around £18m, which is comfortably above the minimum threshold set in the previous Financial Strategy and leaves the Council well-placed to face the inflationary pressures ahead. The level of balances recommended to be held against future risk will be reviewed during production of the Council's Medium-Term Financial Strategy and brought back to this Committee, and to a meeting of the full Council, for consideration in the coming months. There is no doubt however, that there will be a significant call on these balances in the face of the highest rates of inflation experienced for over 40 years alongside the demand for services from residents and businesses facing a major cost-of-living crisis.

2.5 A table of the key variances at service level, between budgeted and actual revenue outturn, is included at Appendix 2 of this report. It should be noted that this includes around £1.06m of planned underspends, where works that had been budgeted for during 2021/22 were unable to take place but are still required and therefore a request to carry forward the budget to the following year has been made. Planned underspends are funded from use of the general fund balance.

2.6 The table below provides an overall summary of the variances on the General Fund.

Summary of major variances against Probable outturn	£000s
Probable use of working balance	1,112

Less:		
	Variations in service budgets (see Appendix 2)	(5,246)
	Lower than anticipated increase to the provision for bad debts	(1,372)
	Additional grant funding	(710)
Plus:		
	Operation of Business Rates Retention Scheme	2,549
	Additional transfers to reserves to support the Council's property portfolio	400
	Other accounting adjustments	303
	Set aside of funds to support car park improvements, such as ANPR	180
	Change in financing and investing income	48
	Contribution to working balance	(2,736)

- 2.7 The variance against budgets due to the Business Rates Retention Scheme is largely due to timing differences between receipt and payment of funds which has increased in complexity due to the addition of covid-related rate reliefs which are reimbursed via government grants. Significant fluctuations can occur due to the operation of these reliefs and therefore the Council maintains a reserve to smooth the fluctuations of the system over time. The final outturn from business rates can vary significantly over time as business become eligible for mandatory or discretionary reliefs and as the tax base alters as businesses open and close.
- 2.8 Additional sums have been set aside to support the Council's property portfolio both for repairs and maintenance, so that assets continue to be held in a highly lettable condition, and to cover fluctuations in income due to lease breaks or lease renewals when new terms may be negotiated, including the award of rent-free periods to attract new tenants. These earmarked reserves will be further reviewed as part of the refresh of the Medium-Term Financial Strategy and will be informed by work currently being undertaken on the Council's Asset Management Strategy.
- 2.9 Also of note, is the creation of a new car parking reserve to hold surplus parking income for reinvestment into the Council's Parking services, to which £180,000 is planned to be transferred for the year ended 31 March 2022.
- 3. Housing Revenue Account (HRA)**
- 3.1 The Council also maintains a Housing Revenue Account (HRA), a ring-fenced account which contains all income and 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 surplus for the year on the HRA has increased by £1.022m compared to the probable outturn reported earlier in the year, taking it £0.3m above the surplus originally estimated at the start of the year, to £4.6m.
- 3.3 The overall working balance for the HRA has increased to £36.6m from an anticipated £30m, due to both the increased in-year surplus and one significant capital scheme that is no longer being progressed.

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, and this can be through the use of internal borrowing (using cash reserves until they are needed elsewhere) or through 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 will be presented to Committee in October.
- 4.3 Appendix 4 of this report sets out the Capital spending for the year 2021/22 and commentary on key variances. In total the Council has expended £35.4m in capital resources during the year against an original budget of £81.3m. 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 Other major variances have occurred due to projects no longer being progressed or where provisional sums have been set aside but have not been utilised in the year. For example, the Housing project referred to in the HRA section of the report or the provision for purchase of regenerations assets.
- 4.5 The following table provides a summary of the Capital Programme for 2021/22 and how it was funded.

Capital Expenditure and Funding 2021/22	Gross Spend £m	Grants & Contributions £m	Capital Receipts £m	Earmarked Reserves £m	HRA Reserves £m	Major Repairs Reserve £m	Internal/external Borrowing £m
Housing Services							
Private Sector Improvement grants and loans	0.180	0.174	0.006	-	-	-	-
Purchase of properties for rough sleepers	0.667	0.667		-	-	-	-
Improvement Works to Council Housing	3.784			-	-	3.784	-
Purchase of Property	0.915		0.314	-	0.600	-	-
Housing Developments	0.997		0.352	-	0.645	-	-
Community Development							
Community Transport vehicle replacements	0.124			0.124	-	-	-
CCTV Equipment Replacement	0.036			0.036	-	-	-
Grants to Local Organisations	0.002		0.002	-	-	-	-
Corporate & Business Services							
Restructuring & Transformation - Staff costs	1.125		1.125	-	-	-	-
Green Homes - raising energy efficiency ratings	0.348	0.348		-	-	-	-
Investments in ICT	0.516		0.344	0.172	-	-	-
Runnymede Regeneration Programme - Addlestone	0.132		0.132	-	-	-	-
Runnymede Regeneration Programme - Egham	26.555	0.013		-	-	-	26.542
Runnymede Regeneration Programme - New Haw	0.005		0.005	-	-	-	-
Total	35.385	1.203	2.279	0.332	1.246	3.784	26.542

5. Policy framework implications

- 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 Medium-Term Financial Strategy.

6. Legal implications

- 6.1 Section 28 of the Local Government Act 2003 requires authorities to monitor their income and expenditure against their budget and be ready to take action if overspends 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.

7. Equality implications

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

8. Environmental/Sustainability/Biodiversity implications

- 8.1 Again, while there are no specific environmental, sustainability or biodiversity implications contained within this report, the delivery of sustainable outcomes lies at the core of the Council's vision and the next iteration of the Medium-Term Financial Strategy, and future budgets, will be aligned with the new Corporate Business Plan, which includes the Council's Climate Change Strategy.

9. Conclusions

- 9.1 This report outlines the Council's financial position at the close of 2021/22.
- 9.2 In terms of its net Revenue expenditure, the Council has, as it did in 2020/21, underspent significantly against its budget. This is in part due to the continued impact of Covid-19 which diverted resources to respond to the crisis and more recently, to the "living with Covid" phase of the pandemic.
- 9.3 The Council, alongside the wider public sector, has also faced difficulties with recruitment and retention of staff, in the context of the "great resignation" stemming from the pandemic, which has seen people re-evaluate their work/life balance and perhaps move away from the working environment earlier than they may have otherwise.
- 9.4 The Council's new Corporate Business Plan will set out a clear direction for the Council, and will shape its financial plans moving forward, although it may be some time before a full realignment between budgets and new activity levels is achieved.
- 9.5 The contribution to the General Fund provides a greater buffer to enable the Council to manage fluctuations in its income and expenditure moving forward. However, significant on-going pressures and risks have been identified that will shape the next iteration of the Medium-Term Financial

Forecast and while this additional contingency may be used to support short-term increases in costs or reductions in income, it 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 costs or to increase income streams.

- 9.6 In conclusion, while the favourable outturn positions for both Revenue and Capital Spending, for General Fund and HRA, are welcome, the Council will review both the minimum level of reserves and the future use of its reserves as part of its updated Medium-Term Financial Strategy, taking into account the financial challenges it faces from the current economic climate and the continued uncertainty over future local government funding.

(To Resolve)

Background papers

None