

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Executive Committee
<b>Date of Meeting:</b>	12 June 2019
<b>Subject:</b>	Financial Outturn 2018/19
<b>Report of:</b>	Head of Finance and Asset Management
<b>Corporate Lead:</b>	Deputy Chief Executive
<b>Lead Member:</b>	Lead Member for Finance and Asset Management
<b>Number of Appendices:</b>	Four

## **Executive Summary:**

The report highlights the Council's financial performance for the previous year, setting out the General Fund and capital outturn positions. To support this, a detailed statement on both positive and negative variances against budget is included.

The formation of the Council's reserves for the forthcoming year requires the approval of Executive Committee.

The performance of the Treasury Management function is also included within the report as required by the Council's Treasury Management Policy.

## **Recommendation:**

### **That the Executive Committee:**

- 1. notes the General Fund outturn for 2018/19, the financing of the capital programme and the annual treasury management report and performance; and**
- 2. approves the transfers to and from earmarked reserves.**

## **Reasons for Recommendation:**

In line with the requirement to provide Members with regular information on the Council's finances and financial performance, a report on progress against budget is produced on a quarterly basis. This report on the outturn position for the Council offers more detail on the final financial position and compliments the existing reporting framework. Members are also required to approve the transfers to and from earmarked reserves and the carry forward of budgets.

The Council's Treasury Management Policy requires the Section 151 Officer to report to Members annually, by 30 September, on the treasury management activities and prudential indicators for the previous financial year.

## **Resource Implications:**

As detailed within the report.

**Legal Implications:**

None specific arising from the report recommendations.

**Risk Management Implications:**

A number of reserves have been set aside to deal directly with specific service risk or general financial risk to the Council.

**Performance Management Follow-up:**

The performance of services against their set budget is monitored on an ongoing. In addition, performance is reported to Members on a quarterly basis.

**Environmental Implications:**

None associated with this report.

**1.0 INTRODUCTION/BACKGROUND**

- 1.1 This report sets out the final outturn position for the 2018/19 financial year. The main purpose of this report is to provide Members with an overview of the performance against the General Fund revenue budget for 2018/19 and explain significant variances.
- 1.2 The report also addresses the movement on reserves and requests Member approval for the creation of newly requested reserves or additions to existing reserves that fall outside of a previously approved sum.
- 1.3 In addition to the revenue budget outturn, this report also seeks to confirm the full year progress against the capital programme and the sources of finance used in delivering that programme and also to report the performance in 2018/19 of the treasury management function in line with the requirements of the code of practice.
- 1.4 All of the information within this report will be contained within the Council's Statement of Accounts which will be approved by the Audit Committee in July 2019 following the audit conducted by Grant Thornton.

**2.0 GENERAL FUND REVENUE OUTTURN 2018/19**

- 2.1 In February 2019, the quarter three outturn position was reported to Executive Committee. The report confirmed a surplus of £664,478 for this period.
- 2.2 The final General Fund revenue outturn position for the full year can now be reported as a £2.68m surplus. This is a significant increase against the quarter three position and can be primarily attributed to strong performance in treasury and commercial activities, additional business rates retention, including the impact of the successful 100% retention pilot and substantial external grant funding being received. The following paragraphs highlight this position.
- 2.3 The table below summarises the service performance which has generated the reported surplus. In addition, the table highlights the non-service related activity and other aspects of the overall budget to provide a whole view of the Council's general fund. The table concludes with the budgeted transfer to reserves of £777,720 and the actual transfer totalling £3,463,217.

**Table 1 – General Fund outturn summary**

	<b>Full Year Budget</b>	<b>Outturn Position</b>	<b>Savings / (deficit)</b>
	£	£	£
Employees	9,319,411	9,159,512	159,899
Premises	610,297	533,937	76,360
Transport	165,777	135,772	30,005
Supplies & Services	1,913,446	2,003,907	-90,461
Payments to Third Parties	5,438,570	5,982,432	-543,862
Transfer Payments	4,382	-54,625	59,007
Income	-6,889,995	-8,370,713	1,480,718
<b>Service Total</b>	<b>10,561,888</b>	<b>9,390,223</b>	<b>1,171,665</b>
Treasury activity	117,260	46,502	70,758
Commercial activity	-1,928,859	-2,210,041	281,182
Corporate Savings Targets	-17,500	0	-17,500
New Homes Bonus	-3,179,723	-3,179,723	0
Business Rates Income	-2,694,620	-3,874,011	1,179,391
Other adjustments	-3,636,166	-3,636,167	1
<b>Council Total / Transfer to reserves</b>	<b>-777,720</b>	<b>-3,463,217</b>	<b>2,685,497</b>

**2.4** The outturn position for direct service expenditure shows a positive variance of £1,171,665 and is mainly attributable to the major items outlined below:

- The employees full year budget is underspent largely as a result of staff turnover and vacancies in most service groupings;
- Premises is underspent as a result of savings on utilities and the release of new homes bonus monies to support the asset maintenance programme in future years;
- Savings on transport have been generated across all service areas and result from reduced car allowance scheme costs plus reduced business mileage;
- Payments to third parties is showing a significant overspend and is as a result of the overspend on the Ubico contract (see information in paragraphs below) as well as payments for work undertaken in areas such as the Community Infrastructure Levy (CIL) and Joint Core Strategy (JCS) where partner finance or reserves exist to cover the cost;

- Council income is showing additional income levels of £1.48m over the budgeted provision. The majority of fees and charges budgets, with the exception of planning fees, have been delivered on budget during the year with a few areas, such as garden waste, being beyond expected levels. The large variance is therefore as a result of substantial external grant income being received during the year. The Council has received a number of new burdens grants from the government but has also attracted significant service specific grants particularly in relation to the delivery of the requirements for the Joint Core Strategy. In addition, the Council has attracted significant funding to support its housing and homeless activities.

**2.5** A full explanation of all variances exceeding £40,000 at a group subjective level is contained at Appendix A. The appendix also contains an explanation of the variance on the corporate codes with a more detailed explanation within Paragraphs 2.10 to 2.15.

**2.6** As highlighted previously, and within Paragraph 2.4, the Ubico contract sum has been overspent in 2018/19 by £268,866. This is an increase of £37,979 on the reported position at quarter three of a deficit of £230,887. A full breakdown of expenditure by service on the contract sum, including a variance analysis by subjective heading, is contained at Appendix E. In summary, the overspend can be analysed as follows:

Employment Costs	£108,980
Transport Costs	£93,765
Supplies & Services	£23,054
Statutory & Regulatory	-£3,951
Indirect Expenditure	£47,062
Income	-£46
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Total variance	£268,866

**2.7** In terms of explanation of the overspend, the majority of the additional expenditure on employee costs can be attributed to the use of agency to cover an increased amount of sickness within the workforce. Additional costs were also incurred at the beginning of the year to meet the grounds maintenance requirements. In relation to the supplies and services overspend, this is mainly in relation to additional Personal Protective Equipment being purchased during the year. Indirect expenditure represents recharges from the fleet operation, the cost of senior management and general company costs. The overspend being reported under this heading includes further allocations from the workshops to cover small parts and general supplies, additional overtime incurred and the cost of a management restructure.

**2.8** Transport costs report an outturn overspend of £93,765, the majority of which is from an overspend on tyres of circa £61,000. Other contributing factors include the additional hire of vehicles, vehicle cleaning and directly attributable spare parts. The overspend on tyres was highlighted earlier in the year as an area of concern and Ubico have undertaken further analysis of the area to identify the main reasons behind the overspend. A briefing note has been produced and this is attached to the report at Appendix F.

- 2.9** Whilst this type of service can attract large overspends given the nature of the service provided, it was disappointing that the quarter three position came as a surprise to the Council and was not supported by a detailed analysis and justification. As a result, Ubico has been working on an improvement programme within its operational and financial management to ensure timely communication of detailed information. This includes an overhaul of the reporting pack being issued, improved controls with regard to purchase ordering and financial training for supervisors and management. These improvements should ensure that future financial reporting does not contain any ‘nasty surprises.’
- 2.10** Treasury performance has again been strong in 2018/19 with both investment and borrowing decisions contributing towards an overall surplus of £70,758. Of the surplus, circa £137,000 has been generated from investments. Whilst an increase in the portfolio balance and a slight increase in market rates has benefited the portfolio, the main reason for the surplus is the investment in the CCLA pooled property fund in May 2017 which is currently generating income returns of around 4.5%. Balances in this fund were increased to £4m within the year. An overspend on borrowing of £67,000 has occurred during the year as a result of the acquisition of two new commercial properties at a cost of £8.5m. This was more than budgeted for but the income from the properties has more than covered the borrowing overspend.
- 2.11** As highlighted above, the Council acquired a further two commercial investment properties in the year which has resulted in increased rental generation against budget of £281,000. The two properties, one an office building and one a retail outlet, have a combined yield in excess of the targeted yield and were purchased sooner than envisaged. The two new properties, combined with the existing units, will make a significant contribution to the Council’s core budget in the coming years.
- 2.12** For the second year running, the Council is able to report a positive position on the retained business rates scheme. The Council has seen little impact on its position as a result of successful appeals in year partly as a result of a number of unsuccessful appeals but also because of the provisions it has made against successful appeals. Against this backdrop, additional income has been generated as a result of underlying growth and the Council has received substantial grants from central Government to cover the cost of changes they have made to the scheme in recent years.
- 2.13** In addition to the base position with respect to retained business rates, Tewkesbury was a member of the 100% Business Rate Retention Pilot in Gloucestershire for 2018/19. This has allowed all authorities in Gloucestershire to retain additional rates this year. The outturn figures for the pilot highlight a net gain for Gloucestershire of £14.272m with the overall gain between the pilot and the base non-pooled 50% scheme being £17.347 million. Of this gain:
- £3.47m was allocated to the Strategic Economic Development Fund held by Gloucestershire Economic Growth Joint Committee.
  - £7.63m was allocated to the County Council.
  - £6.25m was allocated to be shared by the six Districts in line with growth in individual areas.
  - Tewkesbury’s additional windfall from the Pilot was £882,000.
- 2.14** The final row in the table picks up all of the remaining items within the base budget to reconcile back to the budgeted transfer to reserves. This row mainly contains the precepts on the tax payer for both the Borough Council and Parish Councils but also contains other items such as the Minimum Revenue Provision.

**2.15** Overall, the Council is able to transfer to reserves a gross total of £3.46m.

### **3.0 COUNCIL RESERVES**

**3.1** A breakdown of the reserves of the Council as at 31 March 2019 is shown at Appendix B to the report. Also included is a breakdown of the previous year's reserves, under the same strategic headings, so as to inform Members about the movement on those reserves in the last two years.

**3.2** Total revenue reserves of the Council stand at £14.69m as at the end of March 2019 and include earmarked reserves, planning obligations and the general fund working balance. The increase in overall revenue reserves totals £4.08m and is as a result of a number of factors:

- In year surplus within the general fund including external grant funding as highlighted in section 2.
- The net position on developer contributions, expenditure against contributions already received and expenditure on existing reserves of £615,042.
- The budgeted transfer to reserves of £777,720 in respect of the vehicle fleet and the commercial property portfolio.

**3.3** The significant surplus on the general fund revenue account has allowed the creation of new reserves and the topping up of existing reserves to meet future needs or specific projects. The proposals contained in Appendix B to the report include the following:

- Confirmation of the approved new £500,000 Borough Growth Reserve.
- An additional £250,000 allocated to the working balance of the Council.
- An additional £133,000 allocated to the MTFS reserve.
- In addition to the planned contribution of £400,000 to the vehicle replacement programme, a further sum of £200,000 is set aside.
- An additional sum of £200,000 for the business transformation programme of the Council.
- The planned contribution of £175,000 to the commercial property portfolio reserve.

**3.4** The reserves list also includes substantial set asides in relation to housing, homeless and the delivery of the JCS all of which have been financed from government grants received during the year. Other government grants received and new burdens funding which have now been carried forward include transparency funding, clean high streets, parks and play areas, exit from the European Union and various new burdens funding in relation to welfare reform.

**3.5** Where significant movements have occurred during the year, a note in Appendix B has been included, to explain the reason for the movement. Members are asked to approve the balances on the reserves for the new financial year.

### **4.0 CAPITAL PROGRAMME**

**4.1** The Council has committed to a substantial capital programme in the last few years and this is highlighted in the level of capital expenditure incurred in 2018/19, totalling £10.67m. The bulk of the expenditure has been on the purchase of further investment properties (£8.5m), the refurbishment of the Public Service Centre (£1.1m) and disabled facilities grants (£0.5).

- 4.2** The capital programme saw over the purchase of two investment property in 2017 totalling £8.5m. This was less than the budgeted amount of £15.1m, hence a reported slippage on the land and buildings programme, but the balance of £6.6m has been carried forward to support the purchase of an industrial unit once sourced and secured in 2019.
- 4.3** An underspend of £182,236 (85%) is reported against the remaining capital balances from the community grants programme. The variance is outside of the Council's control as the draw down of awarded capital grants is subject to applicants progressing the agreed scheme. A report to Executive Committee on project progress is due to be presented in November 2019.
- 4.4** The summarised capital programme is shown at Appendix C to the report together with the sources of finance used. In summary, the Council expended £10.67m on capital projects in 2018/19 utilising £1.05m of capital reserves, £0.90m of capital grants, £0.20m of revenue contributions and £8.5m from borrowing. Following the allocation of capital receipts, primarily from right-to-buy receipts but also including some small asset sales such as the Staverton former garage site, the balance on capital reserves, both receipts and grants, has reduced to £1.2m as at 31 March 2019 with commitments totalling £9.29m over the next three years. The commercial property investment programme and the regeneration of Tewkesbury Town will require the Council to borrow monies from external sources with the cost of borrowing being financed from new income streams associated with the capital investments. Capital grants are expected to continue to cover the annual cost of the Disabled Facility Grant programme.

## **5.0 TREASURY MANAGEMENT**

- 5.1** Treasury Management in local government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Members of an annual review report after the financial year end.
- 5.2** The detailed treasury report is attached to the report at Appendix D. The report details the economic environment, local performance and a number of prudential indicators.
- 5.3** The prudential indicators have been monitored regularly and there were no departures from the indicators arising during the year. The in-year performance of treasury investments resulted in an average return of 1.73% and total income of £356,953. This is £137,353 above the budget for the year and reflects the range of investments made, particularly the investment in the CCLA pooled property fund.
- 5.4** In order to part fund the investment in commercial property, the Council has undertaken significant borrowing with year-end figures totalling £28million. The Council has adopted a balanced borrowing strategy between the financial benefit of short term borrowing and the cost certainty over the long term. This has resulted in the total borrowing cost being kept to a minimum with actual cost totalling £403,457 and representing an average cost of 1.60%. Whilst this outturn position is higher than forecast in budget it is as a direct result of securing additional commercial property during the year from which a net income is derived.

## **6.0 CONSULTATION**

- 6.1** Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

## **7.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

**7.1** Treasury Management Strategy approved at Council on 21 February 2017 and the Medium Term Financial Strategy approved at Council on 6 December 2016.

## **8.0 RELEVANT GOVERNMENT POLICIES**

**8.1** None.

## **9.0 RESOURCE IMPLICATIONS (Human/Property)**

**9.1** As detailed within the report and appendices.

## **10.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**

**10.1** None.

## **11.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

**11.1** None.

## **12.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS**

**12.1** Approval of Treasury Management Strategy 2018/19 – Council 20 February 2018.  
Approval of Budget 2018/19 – Council 20 February 2018.

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**Background Papers:** As per Paragraph 12.1.

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**Appendices:** Appendix A – Revenue outturn by Group.  
Appendix B – Earmarked reserves and carry forwards.  
Appendix C – Capital Outturn 2018/19.  
Appendix D – Annual Treasury Management report.  
Appendix E – Analysis of Ubico contract sum 2018/19.  
Appendix F – Tyre briefing.