

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	8 July 2020
Subject:	Financial Outturn 2019/20
Report of:	Head of Finance and Asset Management
Corporate Lead:	Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	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. NOTE the General Fund outturn for 2019/20, the financing of the capital programme and the annual treasury management report and performance; and**
- 2. APPROVE 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 specifically 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 basis. 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 2019/20 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 2019/20 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 2019/20 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 and Governance Committee later in 2020 following the audit conducted by Grant Thornton.

2.0 GENERAL FUND REVENUE OUTTURN 2019/20

- 2.1 In February 2020, the quarter three outturn position was reported to Executive Committee. The report confirmed a surplus of £310,256 for this period.
- 2.2 The final General Fund revenue outturn position for the full year can now be reported as a £516,851 surplus. This is a solid outturn position but is reduced against predictions as a result of the need to pay a business rates levy to the government – see Section 2.9. 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 £575,000 and the actual transfer totalling £1,091,851.

Table 1 – General Fund outturn summary

	Full Year Budget £	Outturn Position £	Savings /(deficit) £
Employees	9,864,860	9,728,415	136,445
Premises	640,349	610,438	29,911
Transport	157,779	139,379	18,400
Supplies & Services	1,985,608	2,200,945	-215,337
Payments to Third Parties	5,497,115	6,127,850	-630,735
Transfer Payments	13,611,266	13,823,415	-212,149
Income	-20,478,721	-22,249,078	1,770,357
Service Total	11,278,256	10,381,364	896,892
Treasury activity	255,678	4,811	250,867
Commercial activity	-2,753,605	-2,369,432	-384,173
New Homes Bonus	-3,273,399	-3,273,399	0
Business Rates Income	-2,497,557	-2,166,328	-331,229
Other adjustments	-3,584,373	-3,668,868	84,495
Council Total / Transfer to reserves	-575,000	-1,091,851	516,851

2.4 The outturn position for direct service expenditure and income shows a positive variance of £896,892 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 a number of service groupings.
- Premises is underspent as a result of savings on business rates at the public offices and the release of new homes bonus monies to support the asset maintenance programme in future years.
- An overspend on supplies and services is mainly generated through expenditure on holding elections during the year. This expenditure is reimbursed by the government.
- Payments to third parties is showing a significant overspend and is as a result of a number of issues:
 - disbursement expenditure by One Legal which is recovered directly from clients;
 - expenditure in Development Services which is reimbursed by government grant e.g. the Garden Town project;
 - an overspend on the Ubico contract of £320,000 although £148,000 was a known cost relating to depot charges and additional grounds maintenance resources. As reported at Q3, there has also been an overspend on the corporate element of the operation; and
 - the increased cost of disposing of recycle collected.
- Council income is showing additional income levels of £1.77million over the budgeted position. 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 and cemeteries, 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, particularly with regards to Revenues and Benefits, from the government but has also attracted significant service specific grants such as Garden Towns and housing and homeless activity grants as well as substantial elections expenditure reimbursement.

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 2.6 to 2.10.

- 2.6** Treasury performance has again been strong in 2019/20 with both investment and borrowing decisions contributing towards an overall surplus of £250,867. Of the surplus, circa £58,858 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 continuing investment in the CCLA pooled property fund and investment in additional investment vehicles within higher asset classes. An underspend on borrowing of £192,035 has occurred during the year as a result of the failure to acquire new commercial properties.
- 2.7** As highlighted above, the Council failed to acquire a further commercial investment property in the year which has resulted in a deficit of rental generation against budget of £384,173. This loss of income is offset by the savings on borrowing highlighted in the previous paragraph and also savings of £91,992 against our expected Minimum Revenue Provision for the year, which is shown under 'Other Adjustments.' The unspent capital monies are carried forward into the 2020/21 budget.
- 2.8** The overall position on the retained business rates scheme shows a deficit of £331,229 for the full year. The underlying position of both the Council and the Gloucestershire Business Rates Pool is good with a surplus reported on both, of particular note being Tewkesbury's share of the Pool standing at £841,786. However, the accounting impacts of the release of provisions within the scheme mean that the position is reduced to a deficit in 2019/20.
- 2.9** Tewkesbury has been able to recalculate its requirements for provisions against successful business rates appeals in the year after the withdrawal of several, potentially substantial, appeals. As a result of the release of these provisions, some dating back to 2010, a significant surplus is generated from which the Council will benefit after a levy to the government is paid. The accounting requirements are slightly perverse in requiring the levy payment to be made in-year but the release of the gross surplus happens through the collection fund a year in arrears. This means that at this year-end our business rates position is impacted and therefore there is a negative effect on our reserves but the Council will enjoy the release of circa £3.5million of a collection fund surplus in 2020/21. As highlighted in the report to Executive Committee in June, the release of the surplus will be used to replenish reserves reduced to cover the impact at year-end (see Paragraph 3.4) with the balance being used to fund the likely financial impact of COVID-19.
- 2.10** The final row in the table picks up all the remaining items within the base budget to reconcile back to the budgeted transfer to reserves. This row mainly contains the precepts on the taxpayer for both the Borough Council and Parish Councils but also contains other items such as the Minimum Revenue Provision.
- 2.11** Overall, the Council is able to transfer to reserves a gross total of £1.09million.

3.0 COUNCIL RESERVES

- 3.1** A breakdown of the reserves of the Council as at 31 March 2020 is shown at Appendix B. 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 £17.18million as at the end of March 2020 and include earmarked reserves, planning obligations and the general fund working balance. The increase in overall revenue reserves totals £2.49million 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 and totalling £516,851.
- The net position on developer contributions, expenditure against contributions already received and expenditure on existing reserves of £1,398,333.
- The budgeted transfer to reserves of £575,000 in respect of the vehicle fleet and the commercial property portfolio.

3.3 Of the net increase in reserves of £2.49million, £3.165million can be attributed to an increase in the Planning Obligations Reserve which is funded by developer contributions. Substantial sums have been received for commitments such as affordable housing, community centres and sports facilities. The General Fund Working balance has remained constant at £800,000 and there have only been small changes to the other minor reserves. This means that the Council's net earmarked reserves position has decreased by £685,000.

3.4 The surplus on the general fund revenue account and the planned contribution to reserves has been surpassed by the expenditure incurred in-year on reserves, resulting in an overall reduction in the reserve levels. As previously highlighted, part of this reduction in year-end balances is as a result of the levy on the business rates provision release. In order to manage the payment of the levy prior to receiving the gain from the actual release of provisions, the following reserves have been adjusted:

- The MTFs reserve of £1million has been completely withdrawn at year end but will be replaced with the release of provisions money in 2020/21.
- The planned increase in the vehicle replacement reserve of £400,000 has been limited to £139,954. The balance will be added to the reserve during 2020/21 as the release of business rates provisions takes place.

3.5 Where significant movements in other reserves 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 planned capital expenditure for 2019/20, totalling £7.97million. The bulk of the planned expenditure was the purchase of a further investment property (£6.73million), replacement vehicles and equipment (£0.46million) and disabled facilities grants (£0.5million).

4.2 The delivery of the capital programme saw the failure to secure an additional commercial property to our portfolio despite a number being reviewed. The Council has set a high bar in terms of the quality it wishes to purchase and as such very few get recommended to the Commercial Investment Board. Of those put to the Board, two potential acquisitions were bid upon but, after agreeing terms, in both cases the vendor withdrew the properties from sale. The balance available was added to with additional funds made available during the year and is carried forward to meet purchase requirements in 2020/21. The only expenditure incurred during the year within the land and buildings category was £29,928 for The Grange watercourse project.

- 4.3** An underspend of £112,518 (98.5%) 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 was presented in January 2020.
- 4.4** A total of £441,824 was spent during the year on vehicles and equipment. This included the purchase of a replacement waste and recycling vehicle to join our fleet run by Ubico, a number of new mowers for our grounds maintenance operation, the purchase of waste and recycling bins and the purchase of IT hardware.
- 4.5** A small overspend against forecast levels was delivered from the Council's Disabled Facilities Grants programme. However, all expenditure is covered by capital grant funding from the government which is administered by the County Council. Tewkesbury's allocation for the year was in excess of £1.2million and so the total expenditure incurred of £571,561 can easily be met from this.
- 4.6** The summarised capital programme is shown at Appendix C together with the sources of finance used. In summary, the Council expended £1.08million on capital projects in 2019/20 utilising £156,280 of capital reserves, £571,561 of capital grants and £349,481 of revenue contributions. Following the allocation of capital receipts, primarily from some small asset sales such as the site next to Aldi in Tewkesbury, the balance on capital reserves, both receipts and grants, has reduced to £1.14million as at 31 March 2020.

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 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 1.68% and total income of £453,680. This is £58,858 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 addition, given the increasing risk and low returns from short-term unsecured bank investments, the authority has further diversified into higher yielding asset classes. £5.0million that is available for longer-term investment was moved from bank and building society deposits into pooled equity and multi-asset funds. As a result, investment risk was diversified while the average income return has increase by 1.38% to 1.68%. Whilst capital values of these investments has deteriorated as a result of the impact of Coronavirus, the Council holds these investments for the long term and expects capital levels to return to normal levels in the medium term.

5.5 In order to part fund the investment in commercial property, the Council has undertaken significant borrowing with year-end figures totalling £44.33million. 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 £458,465 and representing an average cost of 1.58%. This outturn cost position is £192,035 lower than estimated as a result of not securing additional commercial property during the financial year which would have necessitated an increased amount of borrowing.

5.6 The year-end total of borrowing, standing at £44.3million, is artificially inflated by £15million taken at the end of March as a result of imminent recalls on other short term borrowing and to help ensure liquidity in light of the financial implications of COVID-19. It is expected that borrowing will return to normal levels during 2020/21.

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 29 January 2019 and the Medium Term Financial Strategy approved at Council on 29 January 2019.

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 2019/20 – Council on 29 January 2019.
Approval of Budget 2019/20 – Council on 19 February 2019.

Background Papers: As per section 12.1.

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Appendices: A – Revenue Outturn by Group.

B – Earmarked Reserves and Carry Forwards.

C – Capital Outturn 2018/19.

D – Annual Treasury Management Report.