

<b>DECISION-MAKER:</b>	COUNCIL		
<b>SUBJECT:</b>	GENERAL FUND AND HOUSING REVENUE ACCOUNT REVENUE OUTTURN 2018/19		
<b>DATE OF DECISION:</b>	17 JULY 2019		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES		
<b><u>CONTACT DETAILS</u></b>			
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#### **STATEMENT OF CONFIDENTIALITY**

None

#### **BRIEF SUMMARY**

The purpose of this report is to summarise the overall General Fund and Housing Revenue Account (HRA) revenue outturn position for 2018/19. The financial statements are still under external audit scrutiny, which means this report is provisional, although no material changes are anticipated.

The surplus on the General Fund increased by £4.14M from the reported quarter 3 position of £0.58M. This gave a total £4.72M surplus, which was transferred to reserves to give an overall balanced position for the year on the General Fund.

The overall position on the HRA was a balanced position. This is in line with the budget approved by Council in February 2018.

The level of General Fund balance at 31 March 2019 was £10.07M, which is in line with the Medium Term Financial Strategy as agreed at 20 February 2019 Council meeting. Earmarked reserves totalled £88.67M at the end of 2018/19, of which £2.86M related to schools. This is £26.34M higher than the estimated position at quarter 3. More detail is provided in paragraphs 21 to 23. Reserves are increasingly important given the uncertainty with central government funding, the challenging financial environment of demand pressures on budgets and continuing savings targets and volatility with local business rate receipts funding.

At the year end, the Collection Fund has a surplus of £6.84M. Part of this surplus is already factored in to budget plans, and part of it is due to other authorities (including

Police and Fire). However, there is an additional gain for Southampton City Council of £1.47M, compared with existing budget planning assumptions for the authority. This gain will be taken into account when reviewing and setting the budget for 2020/21.

Participation in the 100% business rate retention pilot (alongside Portsmouth and the Isle of Wight councils) during 2018/19 has provided a benefit of an extra £3.52M funding via business rates, though £3.28M of this gain has already been included in budget plans for 2019/20 and 2020/21.

**RECOMMENDATIONS:**

It is recommended that Council:

i)	Notes the final General Fund outturn for 2018/19 detailed in paragraphs 5 and 6 is a balanced position following the transfer to earmarked reserves.
ii)	Notes the performance of individual Portfolios in managing their budgets as set out in table 1 of this report and notes the significant variances highlighted in Appendix 1.
iii)	Notes that the level of General Fund balances at 31 March 2019 was £10.07M and the level of earmarked reserves was £88.67M (at paragraphs 21 to 23 and Appendix 2).
iv)	Agrees the budget carry-forward requests totalling £2.92M as detailed in paragraph 7 and Appendix 3.
v)	Notes the accounts for the Collection Fund in 2018/19 as detailed in paragraphs 8 to 14 and in Appendix 4.
vi)	To note the HRA revenue outturn for the financial year 2018/19, as set out in paragraphs 18 to 20 and in Appendix 5 and 6.
vii)	To note the performance of the Property Investment Fund (PIF) as detailed in paragraphs 25 to 27 and Appendix 7.
viii)	Notes that the benefit derived from participation in the business rate pilot scheme (as part of the Solent Region pilot alongside the Isle of Wight and Portsmouth) during 2018/19 was £3.52M as detailed in paragraph 24.

**REASONS FOR REPORT RECOMMENDATIONS**

1. The reporting of the outturn for 2018/19 forms part of the approval of the statutory accounts.

**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. Reporting of outturn is undertaken in line with Local Government Accounting Practice. This is the only appropriate option.

**DETAIL (Including consultation carried out)**

**GENERAL FUND BUDGET**

3. The original budget was approved by Council in February 2018 with the revised budget noted by Council in February 2019. Each portfolio within the General Fund is responsible for monitoring net controllable spend against the budget throughout the financial year.
4. The focus for this report is on indicating the change since the previous report as noted by Cabinet at its meeting on 19 February (at quarter 3).
- OVERALL GENERAL FUND REVENUE POSITION**
5. The surplus on the General Fund increased by £4.14M from the reported quarter 3 position of £0.58M. This £4.72M surplus was transferred to reserves to give an overall balanced position for the year on the General Fund. The table below reports on the movements to the position reported at quarter 3.

Table 1: Outturn

General Fund Revenue Account: Outturn Position 2018/19	Quarter 3 forecast (amended for budget changes)	Portfolio Outturn 2018/19	Net Movement from Quarter 3 Outturn 2018/19	
	£M	£M	£M	
<b>Portfolios</b>				
Adults	71.41	71.00	(0.41)	F
Aspiration, Schools & Lifelong Learning	5.08	7.51	2.43	A
Childrens & Families	38.56	38.07	(0.49)	F
Community Wellbeing	(4.90)	(5.02)	(0.12)	F
Finance & Customer Experience	34.02	34.19	0.17	A
Green City	0.48	0.25	(0.23)	F
Homes & Culture	7.10	7.16	0.06	A
Leader and Clean Growth & Development	10.96	9.04	(1.92)	F
Transport & Public Realm	23.28	23.67	0.39	A
<b>Sub total for Portfolios</b>	<b>185.99</b>	<b>185.87</b>	<b>(0.12)</b>	<b>F</b>
Levies & Contributions	0.63	0.68	0.05	A
Capital Asset Management	11.43	3.46	(7.97)	F
Net Housing Benefit Payments	(0.76)	0.27	1.03	A
Transport & Public Realm Trading	(0.43)	(0.48)	(0.05)	F
Other Expenditure & Income	(9.45)	(6.79)	2.66	A
<b>Net Council Expenditure</b>	<b>187.41</b>	<b>183.01</b>	<b>(4.40)</b>	<b>F</b>
<b>Financed By:</b>				
Draw from Balances	(1.25)	(1.25)	0.00	-
Council Tax	(95.94)	(95.93)	0.01	A
Business Rates	(99.21)	(99.04)	0.17	A
Non-Specific Government Grants & Other Funding	8.41	8.49	0.08	A
<b>Total Financing</b>	<b>(187.99)</b>	<b>(187.73)</b>	<b>0.26</b>	<b>A</b>

	<b>Transfer to Reserves - Year End Surplus</b>	0.58	4.72	<b>4.14</b>	<b>F</b>
	<b>(Surplus)/Deficit</b>	<b>0.00</b>	<b>0.00</b>		
	<b>(note: figures in this report maybe rounded)</b>				

6. The main variations on each portfolios and on the non-portfolio areas are attached in Appendix 1, which details all variations in excess of £0.2M.

**CARRY FORWARDS AND OTHER NEW SPENDING**

7. A number of service area funds have been carried forward these are summarised in Appendix 3 and total £2.92M. It is expected that this spend will be incurred in 2019/20.

**COLLECTION FUND**

8. The outturn for the Collection Fund is an overall surplus £6.84M. This is better than expected and will be carried forward into 2019/20. However, other authorities benefit from any improvement, not just Southampton City Council, with proceeds shared by the Fire Authority and Hampshire Police. Table 2 shows how the surplus has been derived:

Table 2 – Collection Fund Summary Outturn 2018/19

	<b>Budget £M</b>	<b>Actual £M</b>
NDR (Surplus)/Deficit for Year	0.44	(1.82)
Council Tax (Surplus)/Deficit for Year	0.00	0.91
Net total (Surplus)/Deficit Collection Fund 2018/19	0.44	(0.91)
Total Collection Fund Surplus B/Fwd from 2017/18	(5.93)	(5.93)
<b>Total Collection Fund Surplus C/Fwd to 2019/20 (see table 2a for more information)</b>	<b>(5.49)</b>	<b>(6.84)</b>

9. The NDR element of the Collection Fund had a surplus in-year of £1.82M against an expected deficit of £0.44M. The £1.82M surplus is as a result of around £3M being released from the appeals provision, after a review, but partly offset by lower income from business ratepayers. This improved position has resulted in a balance to be carried forward of £5.36M rather than £3.10M, a gain total of £2.26M.

10. When setting the council tax and budget for 2019/20 in February 2019, the expected NDR surplus to be carried forward of £3.10M was taken into account. As a result of the improved outturn position, the Council will have an additional surplus of £2.24M (i.e. our share of the £2.26M gain mentioned in paragraph 9) and this will be taken into account when setting the council tax and budget for 2020/21.

11. The council tax element of the Collection Fund had a deficit for the year of £0.91M, against an expected neutral position (£0.00M). This worsening position resulted in a balance (surplus) to be carried forward of £1.48M, rather than £2.39M i.e. a £0.91M loss.

12 When setting the Council Tax and budget for 2019/20 in February 2019, the forecast surplus to be carried forward of £2.39M was taken into account. This leaves a loss of £0.91M that will be carried forward to be shared between the City Council, the Police and Crime Commissioner, and Hampshire Fire & Rescue Authority in proportion to the precepts levied in this year. Southampton City Council's £0.77M share of the loss will be taken into account when setting the council tax and budget for 2020/21.

13 The overall picture, combining the improved position on the business rates and the worsening position on council tax, and the respective share the City Council receives, is a gain of £1.47M for the 2020/21 budget, when compared with current planning assumptions. Table 2(a) sets out how the Council has benefitted from the overall surplus in the collection fund as reported above when compared with previous estimates.

**Table 2(a) Breakdown of Collection Fund Surplus Carried Forward (NB shaded columns are per table 2 above)**

	<b>Revised Est £M</b>	<b>Actual £M</b>	<b>Variance Adverse/ (Favourable) £M</b>	<b>SCC share* £M</b>
Council Tax Deficit	(2.39)	(1.48)	0.91	0.77
NNDR Surplus	(3.10)	(5.36)	(2.26)	(2.24)
<b>Total</b>	<b>(5.49)</b>	<b>(6.84)</b>	<b>(1.35)</b>	<b>(1.47)</b>

\*NOTE: SCC has a 85% share of the additional Council tax deficit but a 99% share of the additional NNDR surplus

14 More detail regarding the Collection Fund Account 2018/19 is contained in Appendix 4. The updated position of improved overall funding will be taken into account in updating the Medium Term Financial Strategy and future years' budget setting.

**DEDICATED SCHOOLS GRANT AND SCHOOLS**

15 The Dedicated Schools Grant is a ring-fenced grant and balances are carried forward each year. The position at year end is a surplus of £0.73M. As showed in Table 3 below. This is further detailed in Appendix 1.

Table 3 – DSG Position

	£M
Carry forward from 2017/18	1.09
Net surplus in year	(0.73)
Balance to carry forward	0.36

16	<p>There are 13 schools reporting a deficit balance as at the 31<sup>st</sup> March 2019 as shown in table 4 below. This is three more than the position at the previous year-end and the total deficit has increased by £1.07M.</p> <p><u>Table 4 – Schools in Deficit</u></p> <table border="1" data-bbox="204 360 1098 689"> <thead> <tr> <th></th> <th colspan="2">2017/18</th> <th colspan="2">2018/19</th> </tr> <tr> <th></th> <th>Deficit £M</th> <th>No. of Schools</th> <th>Deficit £M</th> <th>No. of Schools</th> </tr> </thead> <tbody> <tr> <td>Primary</td> <td>1.05</td> <td>6</td> <td>1.84</td> <td>8</td> </tr> <tr> <td>Secondary</td> <td>1.65</td> <td>4</td> <td>1.93</td> <td>5</td> </tr> <tr> <td><b>Total</b></td> <td><b>2.70</b></td> <td><b>10</b></td> <td><b>3.77</b></td> <td><b>13</b></td> </tr> </tbody> </table>		2017/18		2018/19			Deficit £M	No. of Schools	Deficit £M	No. of Schools	Primary	1.05	6	1.84	8	Secondary	1.65	4	1.93	5	<b>Total</b>	<b>2.70</b>	<b>10</b>	<b>3.77</b>	<b>13</b>
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Secondary	1.65	4	1.93	5																						
<b>Total</b>	<b>2.70</b>	<b>10</b>	<b>3.77</b>	<b>13</b>																						
17	<p>These schools are working with Children’s and Families to agree deficit recovery plans. Additional resources have been found for the 2019/20 budget to fund a school improvement officer and additional finance support to work closely with these schools and monitor achievement of actions in 2019/20.</p>																									
<b>HOUSING REVENUE ACCOUNT (HRA)</b>																										
18	<p>Table 5 below shows the overall outturn variances compared to the 2018/19 budget:</p>																									
	<p><u>Table 5 – HRA Outturn Position 2018/19</u></p> <table border="1" data-bbox="352 1070 1158 1733"> <thead> <tr> <th></th> <th>(Under)/ Over Spend £M</th> </tr> </thead> <tbody> <tr> <td>Repairs</td> <td>2.03</td> </tr> <tr> <td>Supervision &amp; Management</td> <td>(1.71)</td> </tr> <tr> <td>Capital Financing Charges</td> <td>(1.23)</td> </tr> <tr> <td>Other Expenditure</td> <td>(0.01)</td> </tr> <tr> <td>Variation on day to day services</td> <td>(0.92)</td> </tr> <tr> <td>Capital Funding from Direct Revenue Financing and Depreciation</td> <td>1.62</td> </tr> <tr> <td>Income</td> <td>(0.70)</td> </tr> <tr> <td><b>Total Variation</b></td> <td><b>0.00</b></td> </tr> </tbody> </table>		(Under)/ Over Spend £M	Repairs	2.03	Supervision & Management	(1.71)	Capital Financing Charges	(1.23)	Other Expenditure	(0.01)	Variation on day to day services	(0.92)	Capital Funding from Direct Revenue Financing and Depreciation	1.62	Income	(0.70)	<b>Total Variation</b>	<b>0.00</b>							
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19	<p>The outturn for day to day services was a favourable variance for the year of £0.92M. The most significant variation is around planned and responsive repairs, where the Housing Improvement Board is addressing a number of issues (cost of repairs/voids, upgrade and improvement of IT systems) aimed at reducing the ongoing deficit. Overall, with changes to capital financing (£1.62M adverse) and income (£0.70M</p>																									

	favourable), the net variation is nil. More details are given in Appendix 5 and Appendix 6.
20	The budget for the year was set to break even, which was the actual outturn position for the year. The HRA balance at 31 March 2019 remains at £2.0M. This meets the minimum requirement for the HRA of £2.0M (approved by Council in February 2012).
	<b>MEDIUM TERM POSITION ON RESERVES AND BALANCES</b>
21	The General Fund balance stands at £10.07M, which is the approved minimum level as per the February 2019 Medium Term Financial Strategy (MTFS).
22	<p>Earmarked reserves totalled £88.67M at the end of 2018/19, of which £2.86M related to schools (see appendix 2 for more information). This compares to a forecast of £62.33M at Q3, including a forecast deficit balance for schools of £0.35M. The main changes to the Q3 position were:</p> <ul style="list-style-type: none"> <li>• £9.42M improvement in the Medium Term Financial Risk Reserve arising from the contribution of the year-end surplus, a reduced drawdown towards project costs in year and further funding being set aside for project and one-off costs in 2019/20;</li> <li>• £3.32M reduced drawdown on the Revenue Contributions to Capital Reserve following review of the financing of the capital spend for the year;</li> <li>• £3.28M contribution to the Taxation Reserve for the additional business rates retained from participating in the Solent Pool;</li> <li>• £3.21M of schools balances not applied</li> <li>• £2.92M increase in the Portfolio Carry Forwards Reserve for the agreed carry forwards noted in paragraph 14;</li> <li>• £1.78M of revenue grants being carried forward into 2019/20.</li> <li>• Other variations totalling £2.41M (but individually all less than £1M). The most significant variations includes increases against quarter 3 expectations for a net reduction in the expected usage of the Digital Strategy Reserve (£0.9M), a creation of a reserve to cover any potential for feasibility costs (£0.5M), a building competition account (£0.6M – transferred from another reserve), less £0.5M applied for project work from the Organisation Development Reserve. All other more minor changes compared with quarter 3 total £0.9M.</li> </ul>
23	Given continued uncertainty and volatility of public funding in the coming years, it is more important than ever that the Council holds adequate reserves. This will enable smoothing of any unexpected fluctuations and shortfalls, for example, and mitigate any impact on services enabling them to plan more effectively.
	<b>BUSINESS RATE PILOT</b>
24	Southampton City Council participated in a business rate retention scheme pilot working alongside Portsmouth City Council and the Isle of Wight Council as part of the Solent Region pilot area. The pilot means 100% of business rate growth is retained within the area, rather than the usual 50%. The success of achieving pilot status was awarded from Government following a competitive process against other authorities. The gain arising from participating in the pilot in 2018/19 was £3.52M, although £3.28M of this benefit was already anticipated in budget planning for 2019/20 and 2020/21.

	<b>PROPERTY INVESTMENT FUND (PIF)</b>
25	As part of the scheme of delegation it was agreed the performance of the Property investment fund would be reported at outturn stage to Full Council. Appendix 7 gives the details of this fund.
26	There has been no additional purchases during the year. The rate of return on investment in 2018/19 before borrowing costs and other on costs was 5.95%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.05%. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases.
27	Investment properties have to be revalued every year. Current valuation is £28.31M a slight increase from last year of £0.41M, which returned a loss of £1.79M from original capital investment of £29.69M. Part of the reason for the initial loss will be the transactional costs associated with the purchase itself, as the value reported in the accounts is based on just the market value of asset.
	<b>FINANCIAL STATEMENTS 2018/19</b>
28	The draft financial statements were presented to Governance Committee on 10 June 2019.
29	The Annual Audit, carried out by our auditors Ernst & Young LLP, commenced on 20 May 2019. The final audit report is expected to be completed by the end of July 2019. Any major changes to the Financial Statements arising from the annual audit will be reported to the 29 July 2019 Governance Committee.
	<b>TREASURY MANAGEMENT</b>
30	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable. Borrowing and investment of surplus funds is all part of the council's treasury management work.  Overall responsibility for treasury management remains with the Council and this activity is not without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. See Appendix 8 for further information on the treasury management activity over 2018/19.
	<b>RESOURCE IMPLICATIONS</b>
	<b><u>Capital/Revenue</u></b>
31	As set out in the report details.
	<b>CONSULTATION</b>
32	Although there is no statutory duty to consult, the HRA outturn position noted in this report has been discussed at meetings of the Tenant Resources Group, which comprises tenants from across the city, and their input is acknowledged with thanks.
	<b><u>Property/Other</u></b>
33	None.
	<b>LEGAL IMPLICATIONS</b>



<b><u>Statutory power to undertake proposals in the report:</u></b>	
34	The Council's accounts must be approved by Council (or a committee thereof) in accordance with the Accounts and Audit Regulations 2015.
35	The requirement to maintain a Housing Revenue Account is set out in the Local Government and Housing Act 1989 and the requirement to publish final accounts is set out in the Accounts and Audit Regulations 2003.
<b><u>Other Legal Implications:</u></b>	
36	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
37	None.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
38	The proposals contained in the report are in accordance with the Council's Policy Framework Plan.

<b>KEY DECISION?</b>	Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>	All
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	General Fund Portfolio Variances Explanations
2.	Useable Reserves at 31 March 2019
3.	Budget Carry Forwards
4.	Collection Fund 2018/19
5.	HRA Revenue Summary Outturn 2018/19
6.	HRA Variance Explanations 2018/19
7.	Property Investment Fund Performance 2018/19
8.	Treasury Management
<b>Documents In Members' Rooms</b>	