

CORPORATE MANAGEMENT COMMITTEE

Thursday 25 June 2020 at 7.30 p.m.

To be held remotely via MS Teams

URGENT SUPPLEMENTARY AGENDA

PART I

The Chairman has agreed that this item be admitted to the Agenda as an item of urgent business for the special circumstances and urgency as set out below:

Special Circumstances

The report was not able to be completed until after the despatch of the main agenda.

Urgency

To enable Members to have the latest financial information available in considering item 5 on the agenda on the Runnymede Travel Initiative.

N.B. The item below replaces the item listed on the main Agenda as Part II Exempt Item 16 – Budget Monitoring 2020/21. It will be considered as a Part I item in public before Part I item 5 on the agenda on the Runnymede Travel Initiative.

4A. BUDGET MONITORING UPDATE 2020 (ASSISTANT CHIEF EXECUTIVE)

Synopsis of report:

Forecast of the Council's General Fund revenue income and expenditure for 2020/21.

Recommendation :

To note that the Chief Executive is working on a number of initiatives which will be presented to Members which are designed to reduce revenue spending or increase revenue income or capital receipts. Options will include:

- 1. Re-engineering of some functions with a savings target of £500,000**
- 2. Service reviews (revised target of £300,000 by December 2021)**
- 3. Shared services with other authorities**
- 4. Capital schemes which may involve:**
 - A new plan for Addlestone One including**
 - A review of commercial assets.**

1. Context of Report

- 1.1 Finance officers are continuously updating the budget monitoring report following discussions with service managers. This is an update on the budget monitoring report previously circulated to Members as Exempt Appendix '9' to the Covid-19 Recovery Plan report considered by the Corporate Management Committee on 27

May 2020 in the confidential Part II section of the agenda for that meeting. Annex 1 to this report attached contains the General Fund Financial Monitoring Statement at May 2020, while more granular detail is set out in Exempt Appendix '3' which shows changes in net expenditure on services as at 31 May 2020. Exempt Appendix '3' has been sent separately to Members of the Council with this report, as it contains exempt information under paragraph 3 of Schedule 12A to Part I of the Local Government Act 1972. Exempt Appendix '3' shows that the additional spend and lost income is reducing the General Fund working balance by £2.3 million by March 2021. In February 2020 the budget set by Members approved a surplus of £0.5 million – this is therefore an adverse swing of £2.8 million at the end of May 2020.

- 1.2 A number of organisations in or close to Runnymede have announced they are making redundancies in the near future and preparing for significant reductions in their base budget by the end of the summer. This includes BP who plan to reduce their workforce by 10,000 jobs or 15% of its global workforce. Travelodge have applied for a Company Voluntary Arrangement or CVA.
- 1.3 A CVA is a legally binding agreement with the company's creditors to allow a proportion of the debts to be paid back over time, and some to be written off. A CVA typically lasts between 2 and 5 years. The creditors of Travelodge are opposing the application. However, if the application to the Courts is successful it could impact on the commercial rent and business rates payable to the Council. The Restaurant Group, which owns Frankie & Benny's and Wagamama amongst others has entered into talks with landlords, not in Runnymede, about closing stores and restructuring rents. All the other major chains are actively considering strategic options as retail sales have fallen by 19% in April and a further 5.9% in May.
- 1.4 In the labour market it is estimated 8.7 million people are furloughed and classed as economically inactive. It is uncertain how the long-term effects on unemployment rates will work through the economy. However, the Bank of England expects unemployment to double by the end of June to 9%. The latter figure may increase if the payments from Government are reduced from 80% to 70% in September 2020 and reduced to 60% in October. The scheme closed to all new entrants from 10 June. The Organisation for Economic Co-operation and Development estimates that 75% of the UK's GDP is made up of industries in the financial services, hospitality and tourism sectors. A second peak in Covid-19 would affect them greatly.
- 1.5 Any increase in unemployment and / or furloughing of employees will affect the sums we need to pay in Council Tax support, the amount we actually collect in Council Tax and may have a potential knock on effect to the business rates base and income from all sources – car parking, planning as well as commercial rents.
- 1.6 The Council's income budgets do not assume a 100% collection rate, we do assume a certain level of arrears and maintain a provision for bad debts. As officers have two months of data to work with it is difficult to estimate if these provisions will be able to contain any difficulties in non-collection which will further deplete the General Fund working balances. At this stage in the UK recovery officers have NOT increased any of the provisions for bad debts. Clearly this is intuitively unrealistic but there is no real data available to provide reliable estimates. Finance officers are anticipating market forces will totally deplete the earmarked reserves set aside for commercial property and reduction in business rates retained.
- 1.7 Capital receipts are likely to be zero by March 2021 as it is unlikely any receipts from, mainly, Addlestone One residential property sale will match the £9 million planned. It is very likely that the Council will need to reduce the size of its capital programme by October 2020 beyond the several schemes already deferred due to

resource and/or procurement issues. For the same reason it is likely that the repairs and renewals fund will be fully committed in this financial year.

- 1.8 The Council had planned to invest a further £100m in commercial developments to fund both its existing regeneration strategy and maintain service delivery. However, Covid-19 and the stance of central government on local authority borrowing has effectively ruled out this strategy.
- 1.9 The budget for this year, and future years, was based on the premise that the remaining £60m from the original asset acquisition budget would be spent, plus £100m new acquisitions from 1 April 2020. The Council has acquired Honeywell House in March 2020. However, around £125m remains unspent and is now unlikely to be used, mainly due to the uncertainty around commercial assets valuations, security of tenants, long term yield etc. plus Government is also about to close the door by tightening up borrowing rules that essentially forbid commercial property acquisitions.
- 1.10 Using the budgetary assumption of a gross yield of 5% and borrowing and MRP set aside of around 3% the net benefit to the General Fund in a full year is £125m at 2%, an income stream of £2.5 million is lost for 2021/22 and all future years. For the avoidance of doubt, that is a £2.5m hit to the General Fund each and every year going forward. This money was partially planned to fund £1.2m of growth planned in street cleansing, planning enforcement, future regeneration schemes and loss of Government financial support. Clearly it is unlikely these planned service enhancements can happen and the Council is now looking at reductions in its base budget by October 2020.
- 1.11 If, as expected discretionary income from car parking, public halls etc is reduced, and rent reviews do not increase rent income significantly (which is needed to offset ongoing increases in MRP) then the other two sources of income are council tax increases and retained business rates.
- 1.12 In the Budget approved by Council in February 2020 it was accepted that retained business rates income would be reduced for all district Councils as Government priority spending was focused on adult social care. In the week commencing 8 June 2020, a senior civil servant from the Ministry of Housing, Communities and Local Government (MHCLG) confirmed that “negative Revenue Support Grant” was still an option for the Government to consider in the autumn of 2020. For that reason, the financial strategy approved by Council in February 2020 which shows significant reductions in retained business rates, and new Homes Bonus, still is seen as a prudent forecast, as recent announcements on Government priority spending appear to be adult social care, children’s services , mental health services and the NHS. There has been no mention of services provided by districts and boroughs.
- 1.13 A £5 a year council tax increase will generate an additional £170,000 which does not cover the Council’s basic inflationary cost pressures. Again, this may force the Council to reduce its base budget spending.
- 1.14 During the last decade, or the “austerity years”, this Council has not reduced service provision. In fact, it has continued to invest in services, something which has been extremely rare in the sector. Covid-19 has changed that position drastically. The remainder of this report provides the detail behind the conclusion that the Council, for the first time in a decade, is now facing considerable reductions in its spending power.
- 1.15 The Council is committed to a spend of over £81m on the Egham Gateway project over the next two financial years. The Council’s finances rely on:

1. Commercial units being let including a cinema as an anchor tenant plus food and beverage units – all at the rent levels assumed in 2019 which is now seen as a commercial risk.
2. Student accommodation being fully let.
3. Affordable homes being sold at the agreed price assumed in the business case.
4. The remaining homes being sold to owner occupiers in line with the financial appraisals.

2. Cash Management

- 2.1 At the end of May 2020, the Council had cash investments of £79m down from £87m at the end of April. While the Council can fund service provision in the short term without borrowing for revenue purposes (which is not legal), the use of MRP, HRA cash etc will need to be repaid in the medium term. As the prospects for generating additional income are limited, and with most efficiency savings having been eked out in recent reorganisations, this will rely heavily on savings to balance the Council's budget through:
- Extending existing shared service arrangements and new shared services with other Councils
 - Further limited efficiency savings
 - Some reductions in service delivery and / or staffing
- 2.2 These are the only options available to provide revenue resources to balance the budget in the medium term. Relying on capital receipts to fund short life asset replacement is not viable in the short or medium term. The basic fact is that all capital spending will shortly need to be funded from revenue income streams.

3. Council Tax

- 3.1 Runnymede Borough Council (BC), as the collection authority, collects council tax on behalf of itself, the County Council and Surrey Police.
- 3.2 As Runnymede BC is the collection authority the Council, in November each year, provides the tax base from which Surrey County Council, Surrey Police and Runnymede's council tax is based.
- 3.3 Runnymede, Surrey Police and the Surrey County Council (SCC) all expect to receive their tax rate multiplied by the Band D equivalent of 34,099 dwellings.
- 3.4 The two main risks to the collection fund account are that there is an increase in households claiming council tax support AND the collection rate falls below 98%.
- 3.5 Both Surrey Police and SCC have a legal right to expect all the collection authorities to pay them their full precept when it becomes due, regardless of actual collection rate or take-up of Council tax support. Any resulting overpayments will not be refunded until 2021/22 at the earliest.
- 3.6 When the Accounts are closed for 2020/21 it is certain that the council tax collection fund will be in deficit, which has been made up using Runnymede's cash reserves. But the deficit will not be recovered until 2021/22 in part and fully recovered in 2022/23.
- 3.7 Therefore, the third main risk to Runnymede BC is the cash flow risk – should council tax support take up increase and collection rates fall, then the precepts paid to the SCC and Surrey Police will be higher than the cash collected.

- 3.8 The table below demonstrates that those households in the borough in receipt of council tax support have increased significantly. In the overall financial forecast, Finance officers have assumed an additional spend of £400k for the year. In the first 2 months of the year the full year cost is already anticipated to be £177k.

Council tax support caseload				
	Pension age	Working age	Total	Annual spend £'000
Mar-20	1,565	1,565	3,130	3,777
Apr-20	1,543	1,624	3,167	3,921
May-20	1,545	1,703	3,248	3,954
Increase number	(20)	138	118	177
%	-1%	9%	4%	5%

- 3.9 The cash profile from payments out of the collection fund is shown below (Runnymede BC's is shown as a notional outflow) – but regardless of council tax support and collection rates falling below 98%, Surrey Police and SCC expect to receive their combined precept payments of just under £61 million. What does relieve the pressure on this Council's cash flow are the months of August and December where the two major preceptors do not receive any payments from the collection fund.

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Precepts due													
Runnymede BC	482	482	482	482	482	482	482	482	482	482	482	482	5,783
Surrey CC precept	5,154	5,154	5,154	5,154		5,154	5,154	5,154		5,154	5,154	5,154	51,540
Surrey police precept	923	923	923	923		923	923	923		923	923	923	9,226
	6,558	6,558	6,558	6,558	482	6,558	6,558	6,558	482	6,558	6,558	6,558	66,549

- 3.10 A significant number of Runnymede council taxpayers keep their council tax accounts in credit, so at the 1 April 2020 there were £1.3 million payments in advance. Again, this reduces pressure on Runnymede's cash flow position in the current year. Formal council tax recovery action has been suspended. In early May a letter was sent to all taxpayers informing them that the Council was still providing essential services and we would be grateful for any payments made towards the tax due. Several band G and H dwellings have now paid the entire year's tax in advance. A managing agent has paid the year's tax bill of over £200,000 in a single payment. For that reason, the May 2020 cash receipt is artificially inflated.
- 3.11 The second risk is the increase in working age households claiming council tax support which has risen by almost 10%. For working age claimants, the Council will pay up to 80% of the council tax up to a Band D tax rate. Government have a one-off grant of £338,000 to allow the Council to credit up to £150 to every working age household claiming council tax support. Within two weeks of receipt, £228,000 has been spent. Any new claims being received will also be entitled to a credit of £150 which will be funded from ongoing unspent Government grant.
- 3.12 The table on the next page shows, using the April and May cash collection as a starting point and estimating collection rates for the remainder of the year, that in cash terms the Council will reduce its cash balance by around £1.3m by March 2021.

	Actual	Actual	80% of tax due collected				85% of tax due collected			90% of tax due collected			
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash received	7,668	6,289	4,275	4,257	4,257	4,257	4,524	4,524	4,524	4,840	4,840	4,840	59,095
Add government support grant		338											338
Less cash paid to SCC and police	6,077	6,077	6,077	6,077	0	6,077	6,077	6,077	0	6,077	6,077	6,077	60,766
Balance to Runnymede	1,591	550	-1,801	-1,819	4,257	-1,819	-1,553	-1,553	4,524	-1,237	-1,237	-1,237	-1,333
Cumulative		2,142	341	-1,479	2,779	960	-593	-2,146	2,377	1,141	-96	-1,333	

3.13 In essence we may collect £1.3m less than we pay out and Runnymede does not receive the £5.8 m in council tax cash it anticipated – a total of £7.1m shortfall.

4 Commercial property income

4.1 It is worth repeating that the budget for this year, and future years, was based on the premise that the remaining £60m from the original asset acquisition budget would be spent, plus £100m new acquisitions from 1 April 2021. The Council has acquired Honeywell House in March 2020. However, around £125m remains unspent and is now unlikely to be used, mainly due to the uncertainty around commercial assets and Government forbidding more asset acquisitions.

4.2 Using the budgetary assumption of a gross yield of 5% and borrowing and MRP set aside of around 3%, the net benefit to the General Fund in a full year is £125m at 2%, an income stream of £2.5 million. For the avoidance of doubt, that is a £2.5m hit to the General Fund each and every year going forward. This money was partially set aside to fund £1.2m of growth planned in street cleansing, planning enforcement etc.

4.3 The report to Corporate Management Committee in May 2020 assumed debt deferral in tax and commercial income, at this stage of the UK's economic recovery plans assuming bankruptcy rates were not desirable as previously discussed.

4.4 While there is no new commercial income to fund the £1.2 million growth plans, some are committed such as the A320 feasibility (£400k), tree survey (£80k) energy efficiency works (£100k), depot feasibility study (£20k). The latter is likely to identify further capital or revenue spend requirements.

4.5 Excluding income from additional purchases, commercial income is budgeted to raise income of £24.4 million in this financial year. After a 2.5% void provision of £0.6m the budget approved by council is £23.8 m. In the use of balances table above officers are anticipating up to £6.5 million will be required to make good rent loss and or dilapidations costs. Should the loss be higher this will come from the General Fund working balance.

4.6 In early 2020 it was recognised the take up of commercial units in Addlestone One was slower than anticipated. For that reason, the remaining units would not be fully let until 2021/22. The additional income included in the budget for this year is £133k, rising to £421k in 2021/22 and £550k in a full year. The strategy for Addlestone One is being reviewed but it is highly unlikely this level of income is now achievable.

Reserves

The updated forecast predicted the General Fund working balance falling significantly by March 2021 and by March 2022 being close to minimum approved by Council of £3 million. In addition our earmarked reserves will be used completely to fund this years Capital Programme, General Fund spending or reduced income, excluding council tax losses and not for the purposes originally intended.

	Balance at 1 April 2019	Change in 2019/20	Balance at 31 March 2020	Change in 2020/21	Balance at 31 March 2021	Change in 2021/22	Balance at 31 March 2022	Change in 2022/23	Balance at 31 March 2023
ESTIMATE June 2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Working Balance	3,878	1,869	5,747	(2,301)	3,446	(10)	3,436	511	3,947
Business Rates (NNDR) equalisation reserve	2,880		2,880		2,880	(2,880)	0	0	0
Equipment repairs and renewals reserve	1,000	187	1,187	(1,187)	0		0	0	0
Investment Property income equalisation reserve	2,000	1,750	3,750	0	3,750	(3,750)	0	0	0
Property repairs and renewals reserve	1,000	1,750	2,750	(1,650)	1,100	(1,100)	0	0	0
Total	10,758	5,556	16,314	(5,138)	11,176	(7,740)	3,436	511	3,947

Other income issues

- 4.7 Other incomes which are vulnerable include HRA garages which are accounted for in the General Fund with a target of £721k and car park income where a return to 2019 levels cannot really be determined with any accuracy.
- 4.8 Government have been clear they will not reimburse Councils for any lost income, they may cover council tax and business rates losses, but as Runnymede raises little from taxation (£5.8m in council tax and £3.7m at most from retained business rates), any losses will be in total marginal.
- 4.9 What is significant are the cash flow sums on paying the precepts due to the police, Government and Surrey County Council from this Council's cash reserves. If the Government's furlough scheme is scaled back further, then it is reasonable to expect an increase in benefit claimants. We have just sent very soft business rates reminders to 45 business premises to chase up £942k in arrears.
- 4.12 The capital programme relies on over £9m of capital receipts from the sale of the final apartments in Addlestone One in 2020/21 and a further £7.7m from the former Ashdene site over the next three years. In the short term it may not be possible to generate that level of receipt in the final three quarters of this financial year.
- 4.13 There are some unavoidable capital commitments such as £81m for Egham, £5m for the River Thames scheme and £2m plus for vehicle replacement. Therefore, Members may wish to re-prioritise the remaining schemes, including the Runnymede Pleasure Grounds.

5. Capital receipts and the capital plan

- 5.1 Attached at Exempt Appendix '4' which has been sent separately to Members of the Council with this report as it contains exempt information under paragraph 3 of Schedule 12A to Part I of the Local Government Act 1972, is the Capital Programme to 2024/25 showing deferment already made to the programme approved by Members in February 2020. A significant part of the programme is funded by capital receipts.
- 5.2 The available capital receipts at April 2020 have fallen to £2.6m which cannot fund the programme.
- 5.3 Over the last few years, the Council has set aside sums from commercial income to fund the acquisition of short life assets such as vehicles and ICT. The forecast means that the strategy over the next few years is not viable as the revenue budget is under pressure. The earmarked reserves have been used to fund the overspend in the General Fund.

- 5.4 The capital plans assume £11.4m capital receipts from the sale of apartments in Addlestone One and a further £13.3m in receipts from the Egham regeneration scheme. While these schemes will generate receipts the timing and value is not certain, and beyond 2024 there are no further schemes planned to generate capital receipts.
- 5.5 Future capital plans must be funded from revenue from 2024 onwards.
- 5.6 The Council is relying on two main sources of capital receipts over the next three years to fund more of the short life assets, such as essential vehicles, from revenue. Clearly the financial monitoring and the depletion of reserves makes the prospect of using £7.8m of capital receipts to fund the programme, when they are now reduced to £2.6m, a significant financial risk.

6. Conclusion

- 6.1 At the start of the year, the budgets were drafted on the assumption that the austerity years were over. Given the effects of Covid-19 on businesses and their employees, a new period of austerity is almost certain in some areas of the public sector. Through prudent and innovative management, Runnymede is not in as bad a situation as its Surrey colleagues. However, having had to plug the gap of £7m in lost Government grant over the last 10 years, options for recovering our current position are limited and hard choices are now required.
- 6.2 When the original budget was being drafted, Members were given the option of generating savings or purchasing more property in order to balance the budget and Members chose the latter option. With the purchase of property effectively being ruled out by central Government, the Council was left with an immediate £1.2 million hole to plug in this and future year's budgets - that was before accounting for any of the additional cost pressures created by Covid-19.

(To resolve)

Background papers

Budget monitoring files – held in Finance section

General Fund Financial Monitoring Statement
May 2020

Service Area	Original Budget	Forecast Outturn	Variance	Ongoing effect on the MTFS		
	£000	£000	£000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Housing Committee	2,109	2,130	21	21	21	21
Community Services Committee	5,281	5,469	188	210	0	0
Environment & Sustainability Committee	3,886	4,602	716	0	0	0
Licensing Committee	16	16	0	0	0	0
Regulatory Committee	71	71	0	0	0	0
Planning Committee	1,562	2,041	479	0	0	0
Corporate and Business Services	(18,825)	(13,324)	5,501	3,821	1,044	1,044
Estimates in the MTFS yet to be agreed	1,278	618	(660)	90	0	0
Efficiencies & Revenue Reductions	(1,200)	0	1,200	1,200	1,200	1,200
Additional Covid Expenses	0	250	250			
Net expenditure/(surplus) on services	(5,822)	1,872	7,694	5,342	2,265	2,265
Accounting and other adjustments:						
Reversal of depreciation charges	(2,640)	(2,640)	0			
Cost of capital charge to HRA	(43)	(43)	0			
Transfer to/(from) reserves:						
Business Rates Equalisation Reserve	0	0	0	(2,880)	0	0
Equipment Repairs and renewals reserve	1,000	0	(1,000)	(750)	(750)	(750)
Property repairs and renewals reserve	750	0	(750)	(1,600)	(500)	(500)
Investment property income equalisation reserve	750	0	(750)	(4,250)	(500)	(500)
Financing and investment income						
Investment income - General	(373)	(75)	298	316	513	818
Dividends and Loan interest	(1,571)	(1,571)	0			
Capital financing costs	14,466	12,805	(1,661)	(1,859)	(2,026)	(2,045)
Minimum Revenue Provision	4,097	4,005	(92)	(95)	(100)	(103)
Taxation and Non-specific grant income:						
Council Tax	(5,783)	(5,783)	0	400		
Business rates retention	(3,700)	(3,700)	0	2,880		
New Homes Bonus	(1,657)	(1,657)	0			
Other Grants - COVID-19: emergency funding for local gov	0	(912)	(912)			
(Contribution to) / Use of Working Balance	(526)	2,301	2,827	(2,496)	(1,098)	(815)
General Fund Working Balance:						
Assumed GF Working Balance at 1 April	5,489	5,747	(258)	3,446	3,436	3,947
Assumed movement in MTFS approved Feb 2020	0	0	0	(2,506)	(587)	(811)
2020/21 in year movement (from above)	526	(2,301)	2,827	2,496	1,098	815
Assumed GF Working Balance at 31 March	6,015	3,446	2,569	3,436	3,947	3,951
Note: Minimum Working Balance £3m						

Key:

Original Budget - Approved at Full Council on 11 February 2020

Forecast Outturn - Officer prediction of the year end position based on activity in the year to date